Annual Report 1978

Bell

Contents

Form 10-K

Bell Canada's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission in the United States, is available by writing to:
The Secretary
Bell Canada
1050 Beaver Hall Hill
Montréal, Québec
H3C 3G4

1979 Annual Meeting

The Annual and Special General Meeting of the Shareholders will take place at 2.00 p.m., Tuesday, April 17, 1979, in the Québec Hilton Hotel, Québec City.

Sur demande, le secrétaire vous fera volontiers parvenir un exemplaire français du rapport annuel.

Bell Canada
Executive Offices
1050 Beaver Hall Hill
Montréal, Québec
H3C 3G4

Financial Highlights

All figures in Canadian dollars		Thousands of dollars except per share amounts		
		1978	1977	% Increase
Consolidated	Earnings per common share (before extraordinary items)	$ 7.46	$ 5.98	24.7
	Total revenues	$4,374,355	$3,513,164	24.5
	Income before extraordinary items	$ 370,562	$ 286,208	29.5
	Net income	$ 395,052	$ 288,575	36.9
Non-Consolidated	Earnings per common share (before extraordinary item)	$ 5.89	$ 4.73	24.5
	Total revenues	$2,683,083	$2,133,415	25.8
	Income before extraordinary item	$ 300,817	$ 232,895	29.2
	Net income	$ 304,939	$ 232,895	30.9
	Capital expenditures	$1,003,672	$ 951,079	5.5

Right
A. Jean de Grandpré, standing, and
James C. Thackray, in the company's boardroom

1978 was a significant year for Bell Canada.

As this report details in the pages that follow, it was a time of change, challenge, innovation and progress. On balance, in spite of a variety of problems, it was a good year for the company, its customers and its shareholders.

The company's earnings were at an all-time high. Consolidated earnings were $7.46 per common share, before extraordinary items, compared with $5.98 a share in 1977. Non-consolidated earnings (those of the regulated telecommunications company) were $5.89 a share, before extraordinary item, up from $4.73 a share the year before. The non-consolidated rate of return on average common equity, before extraordinary item, was a record 11.09%, a substantial improvement over 9.02% in 1977, although still below the 12% level deemed reasonable by the Canadian Radio-television and Telecommunications Commission. In August the commission approved increased rates which it estimated would enable Bell Canada to earn a return of 12% in 1979.

The components of non-consolidated earnings are examined in a special section of this report beginning on page 14.

In November, the Board of Directors announced that a by-law providing for a three-for-one split of the company's common shares would be submitted for the approval of shareholders at the annual meeting scheduled for April 17, 1979. Shareholders will also be asked at the same time to approve a resolution increasing the authorized capital stock to $5 billion from $1.75 billion. These proposals were made possible by amendments during the year to Bell Canada's charter, the first such change since 1968.

The Board also increased the quarterly dividend rate in November to $1.14 a share. This followed an earlier increase in the rate, in February, to $1.05 from $1.02.

In February, 1979 the company through its underwriters offered 3,125,000 new common shares to the public in Canada for an aggregate consideration of about $199 million. This was the first direct issue of common shares since 1966 and the first issue underwritten for distribution to the general public since 1922. The ability to undertake such an issue is a clear reflection of both the company's performance and its outlook for the future.

Increases in existing tax incentives for research and development expenditures were introduced in the fall federal budget. These measures are helpful as far as they go and reflect the federal government's growing awareness of the importance to Canada of a strong indigenous research and development capability. However, still further encouragement is needed.

Compared with other industrial nations, Canada lags badly in research and development activity. The relatively small Canadian market has tended to inhibit the development of manufacturing operations large enough to compete effectively on an international scale. One of the few industrial sectors with a favorable balance of trade is telecommunications, and the key to this industry's success is the strength of our manufacturing subsidiary, Northern Telecom. Much of the vitality of Northern's performance, both at home and in its ability to expand into world markets, is attributable in turn to the close relationship of service, manufacturing and R & D in the integrated structure that links Bell Canada, Northern Telecom and Bell-Northern Research.

Ironically, it is this very relationship that is under attack in the hearings being conducted by the Restrictive Trade Practices Commission. At issue in this case, soon to enter its third year, is whether the public interest would best be served by dissolving Bell's ownership ties with Northern. Both companies expect shortly to have an opportunity to begin presenting the case for vertical integration.

Telecommunications in 1978 continued to be a lively subject of public discussion and debate. The company found itself more and more occupied in responding to actions by regulators, governments and government agencies.

In November, legislation was re-introduced in the House of Commons with the aim of making federal regulation of communications "more responsive to technological change and to provincial concerns". That same month the Minister of Communications, Mme Jeanne Sauvé, also announced the appointment of an independent study group headed by the Honorable J.V. Clyne to produce recommendations "on a strategy to restructure the Canadian telecommunications system to contribute more effectively to the safeguarding of Canada's sovereignty." Bell Canada, the TransCanada Telephone System and the Canadian Telecommunications Carriers Association were among the organizations invited to present briefs to the committee at closed meetings held early in the new year. The essence of Bell's submission is reflected in this letter.

Issues affecting the future of telecommunications were scheduled to be discussed at federal-provincial conferences of the First Ministers in February and of Communications Ministers in March (1979). It is to be hoped that the decisions reached at these meetings will contribute to the easing of regulatory burdens, and not add to them, in line with the objectives of the studies under way by the Economic Council of Canada.

Bell Canada is not opposed to regulation as such. For most of its history the company has operated as a regulated monopoly, an arrangement that has given Canada telecommunications services that are second to none. In recent years, however, there have been growing pressures for more competition in this field, along with increasing attempts by potential competitors of the telephone companies to skim off some of the more profitable parts of the business without assuming the obligations of universal service.

Since 1972 Bell Canada has been publicly on record as favouring a controlled liberalization of policy to permit the connection of customer-owned terminal equipment to the network on a selective basis, provided that these equipment offerings are deregulated and that Bell Canada is allowed to compete on an equal footing.

Right
Twenty stories above the street, the company's new logo reflects Bell Canada's central role in the life and growth of a busy urban community. Bell Canada Centre, Toronto.

To this end, Bell has cooperated with the federal Department of Communications in developing a certification program which now permits the connection of a number of products, and is prepared to continue to work with DOC in setting technical standards for other terminals.

There are economic and social considerations, as well as technical ones, which must be taken into account in a transition of this kind. Almost all of the equipment supplied by the telephone companies is made in Canada; most of the terminals available from other suppliers are imported. Policy changes should clearly include safeguards for Canadian jobs, R & D work and balance of trade. Accordingly, Bell Canada in January, 1979 strongly urged the federal government through the Clyne Committee to develop, in cooperation with industry, a national industrial strategy for telecommunications to ensure that any further liberalization of terminal connection policy will produce results clearly beneficial to all Canadians.

In another area of competition, Bell Canada and the eight other major Canadian telephone companies have vigorously opposed CNCP Telecommunications' application to the CRTC for interconnection to Bell's network. At the time of writing, the commission had not yet rendered a decision in this case.

Our present network has developed in a way that effectively integrates a broad range of current technologies and services and readily accommodates new facilities as they become available. Ideally, it would make economic sense if there were a single integrated network in Canada providing the facilities for all telecommunications, voice, data or visual. This would avoid wasteful duplication in the use of scarce resources and reduce costs.

In fact, the advent of fibre optics, now being field-tested in Bell Canada's network, will in time remove any technical justification there may have been in the past for running separate telephone and cable TV lines into customers' homes. A common distribution system, which would still give CATV firms complete control of their own programming, would provide opportunities for technological innovation, accommodate new services, reduce public inconvenience and visual pollution caused by outside plant rearrangements and improve service continuity. Bell Canada welcomes the recent initiatives taken by DOC to address these issues, at a time when new technology is presenting us with a practical opportunity to optimize the local distribution part of the network.

In spite of problems and uncertainties, we are encouraged by the progress made in 1978 and confident that Bell Canada will continue to show improvement in both customer services and financial results in 1979.

One of Bell Canada's greatest strengths over the years has been its employees. Their reputation for dedication to service is recognized the world over. The Board of Directors and the Officers join in extending thanks and appreciation to all employees, together with shareholders and the public, for their support in 1978.

A.J. de Grandpré
Chairman of the Board

J.C. Thackray
President

February 28, 1979


Bell

Below
A group of Canadian investment dealers sign the underwriting agreement for Bell Canada's record $199 million common stock offering.

Right
Bell Canada's new colors were introduced on the company's vehicle fleet in early 1978.

Financial Results

Consolidated earnings were a record $370.6 million, or $7.46 per common share, before extraordinary items, up 29.5% from $286.2 million, or $5.98 a share in 1977, reflecting an improved performance in virtually every area of company activity.

Non-consolidated earnings, those of the regulated telecommunications company, also were a record, increasing by 29.2% to $300.8 million, or $5.89 a common share, before extraordinary item, from $232.9

million, or $4.73 a share in 1977. The rate of return on average common equity, before extraordinary item, was also an all-time high and at 11.09% compared with 9.02% for 1977. The improved earnings performance resulted mainly from continued growth in demand for long distance and local services, together with the impact of increased telephone rates in June 1977 and August 1978. Results also reflect earnings from contract operations mainly from the Saudi Arabia contract.

Operating revenues increased by 25.8% to $2,683.1 million while operating expenses rose 24% to $1,950.3 million.

Capital Expenditures

Bell Canada's 1978 capital expenditure program was a record $1,003.7 million, up from $951.1 million in 1977, reflecting effects of continuing inflation combined with the ongoing need to construct new facilities, modernize and expand existing ones and replace obsolete and worn-out equipment.

The company spent $163.6 million in 1978 as part of an extensive four-year program to provide and improve services in non-urban areas. The capital costs and related expenses of this program will exceed $700 million when it is completed in 1980.

The bulk of capital spending – $644.4 million, or 64.2% – was spent to provide new service facilities and to relocate telephones for customers who have moved.

In 1978 Bell Canada connected 2.14 million telephones and disconnected 1.81 million to produce a net gain of 334,000 telephones. This means that approximately 12 telephones were moved for every new revenue-producing telephone added to the network. Last year's ratio was the same.

Bell Canada expects to incur capital expenditures of approximately $1,098.3 million in 1979, up $94.6 million from 1978.

Financing

In 1978 a total of approximately $575 million was obtained by Bell Canada in capital markets through public offerings of debentures in January and October and convertible preferred shares in April.

In January, $200 million of debentures were issued in the U.S. The 9% debentures, Series DE, were dated January 15, 1978 maturing January 15, 2008, and were offered at par.

In early April, $175 million of Bell Canada convertible preferred shares were offered for sale in Canada. The company issued seven million, $1.96, convertible preferred shares with a par value of $25 to yield 7.84%. The preferred shares are convertible for 12 years into Bell Canada common shares on the basis of two common shares for each five preferred shares.

The largest Canadian issue with the longest term ever offered by Bell Canada was made in October when $200 million of Series DF debentures were sold. These 9.85% debentures, dated October 12, 1978 and maturing October 15, 2005, were offered at par.

To begin its 1979 financing program Bell Canada arranged for the sale in February of 3,125,000 common shares through a group of Canadian investment dealers.

Effective January 1, 1978 Bell Canada's Shareholder Dividend Reinvestment and Stock Purchase Plan was amended to permit purchase of newly issued common shares, rather than existing shares purchased on the open market. Shares acquired under the plan with reinvested common share cash dividends are issued at a 5% discount from the average market price.

During 1978 the number of participants in the plan increased dramatically. Under the former plan 6.7% of shareholders representing 2.1% of shares were enrolled. As of January 16, 1979 some 15.9% of Bell Canada's common shareholders had joined the plan, representing 18.8% of all common shares outstanding.

At current dividend levels and participation rates this represents a total annualized amount of approximately $39.5 million, plus an estimated $6.7 million in optional cash payments.


Bell Canada
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Below
Environmentally controlled manholes are currently being field tested. Designed by Bell-Northern Research the ECM's permit sophisticated electronic telecommunications equipment to be housed below ground in a controlled environment.

Right
Bell Canada continued to improve telecommunications services in the Far North. A number of remote settlements already have access to the Bell Canada network via satellite and more will join the system in 1979.

Regulatory and Legal Matters

In August, the CRTC approved rate increases which it estimated would generate additional revenues of $248 million in 1979 and which, in the opinion of the CRTC, would allow Bell Canada to earn the previously approved rate of return on common equity of 12% in 1979.

A disappointing aspect of the CRTC decision was the Commission's ruling that all of the anticipated revenues from the Saudi Arabian project be treated as part of Bell Canada's ordinary revenue for

regulatory purposes. The company had proposed that a portion be treated as such, with the remainder accruing to shareholders. Subsequently, Bell Canada asked the Commission to review and alter its decision, stating that the ruling would work against the national interests of Canada as well as against the interests of the company's shareholders, and would effectively discourage the company from seeking future ventures of this kind. Support for Bell Canada's position has been expressed by, among others, the Ontario Government which urged that the CRTC consider changing its position so that Canadian telecommunications carriers would have an incentive to export Canadian technology and expertise provided that pursuit of these ventures would have the minimum possible impact on telecommunications services provided by Bell Canada.

In February this year, the CRTC denied Bell Canada's request for a review of the August, 1978 decision dealing with revenues from the Saudi Arabian telephone project. As a result Bell Canada has appealed to the federal cabinet requesting an order varying the CRTC's decision as to how these revenues should be treated for regulatory purposes.

In April, the Federal Court of Canada upheld a CRTC decision ordering Bell Canada to permit the use of customer-owned automatic mobile telephone equipment in connection with Bell Canada's network. In June, the Supreme Court of Canada declined to hear a Bell Canada appeal from this ruling. The case had arisen on an application to the CRTC by Challenge Communications Ltd., Toronto.

In 1975, the Superior Court of Québec issued an injunction prohibiting Bell Canada from interfering with the right of Harding Communications Ltd. of Toronto to sell "Divert-a-call" equipment (which automatically diverts telephone calls from one line to another) for connection to Bell Canada's facilities without Bell's consent when such consent is required for connection in conformity with the tariff. The court also dismissed a motion challenging its jurisdiction to hear the matter. Appeals of both judgments by Bell Canada were dismissed by the Québec Court of Appeal in 1977. In November, 1978 the Supreme Court of Canada dismissed Bell's appeal contesting the jurisdiction of the Québec Superior Court in this matter, and decided not to comment on the interlocutory judgment itself. The case may now be heard on its merits by the Québec Superior Court.

The Consultative Committee set up by the federal government under the chairmanship of the Hon. J.V. Clyne has been addressing the type of issues that gave rise to these proceedings. The company is also conducting an in-depth study of terminal connection policy.

Operating Highlights

Demand for services grew in 1978 and work continued in many areas to extend service and improve efficiency and productivity. At year-end, Bell Canada had 8.9 million telephones in service. Total local telephone conversations were 11,717.1 million, up 1.7% from 1977 while long distance messages amounted to 610.5 million, up 9.6%.

The new Traffic Operator Position System (TOPS), which permits operator-assisted long distance calls to be handled more economically, was introduced in Toronto early in 1978. The system's extension to Montréal was started in mid-February 1979 and will be completed in three phases by 1981. Québec City will come on the new system by mid-1979.

Bell Canada continued to invest substantial resources and funds in 1978 to improve local and long distance telecommunications services in the Northwest Territories and Northern regions of Ontario and Québec. A program to bring satellite service to a number of remote settlements in the NWT and Northern Québec, currently served by high-frequency radio is continuing. Five additional villages were converted to satellite service in 1978. Approximately 4,100 accounts currently have access to the Bell Canada network via satellite and the remaining eight villages are scheduled to be hooked up by the end of 1979. Bell Canada committed approximately $7 million in operating expenses for satellite service in 1978 and will spend about $17 million over the next two years. Total annual revenues for services billed to subscribers resident in the Far North were about $4 million in 1978. By 1980 the total investment in plant is expected at $30 million, including grants totaling approximately $9 million from the Federal and Ontario Governments. Approximate annual operating expenses by 1980, excluding interest, depreciation and support charges from the south, will be $13 million.

Below
In early 1979 the company began a pilot demonstration of Vista, a system capable of providing a wide range of two-way information services using the existing public telephone network.

Right
This roadside emergency service is but one aspect of the modern telephone system that Bell Canada people are helping to organize in Saudi Arabia.

Data Services

The Computer Communications Group of the TransCanada Telephone System had another active year in 1978.

Datapac, a public packet switched data communications network offered by TCTS, concluded its second successful year of service. There are now more than 900 connections to this network of four domestic access services and two international services. Dataroute had a spectacular year by recording an increase of 33% in the number of customer circuits added

to the network and by expanding the number of serving areas to 39 Canadian communities. Dataroute is fulfilling a need for customers across the country who require economical data communications to manage their businesses. Further expansions to the Dataroute network will be made in 1979.

Two major communications facilities contracts were awarded to CCG by the Ontario Lottery Corporation and la Société d'exploitation des loteries et courses du Québec (Loto-Québec), to provide analog and Dataroute circuits from more than 2,000 locations in each province which will permit lottery participants to communicate directly with computers in Toronto and Montréal.

In November, CCG introduced a new teleprinter, Datacom 1200, for data customers who require higher throughput and print capabilities.

Saudi Arabia

A considerable amount of work has already been accomplished on the Saudi Arabia project since a contract to modernize and expand the telephone system was awarded early in 1978 to a consortium comprising Bell Canada, Philips of the Netherlands and L.M. Ericsson of Sweden.

The project will add some 476,000 new telephone lines to the 200,000 already existing in Saudi Arabia which almost equals in size the combined geographical areas of Bell Canada's territory in Ontario and Québec.

On January 25, 1978, Bell Canada signed a five year contract with a value equivalent to $1.1 billion with the Saudi Arabia Ministry of Post Telegraph and Telephone. The major role of Bell Canada and its more than 600 employees in Saudi Arabia is to establish and manage the organization that will operate and maintain the country's expanded telephone system. Switching, outside plant and station equipment is being provided by Philips and L.M. Ericsson.

Telephones in Saudi Arabia are operated by the Ministry of Post Telegraph and Telephone. Saudi Telephone was officially created as the operating arm of the ministry in June, one month ahead of schedule. Since that time more than 50 new telephone exchanges have been added, increasing switching capacity by 119,000 lines. Thousands of new subscribers have been connected, 120 pay telephones have been installed in Riyadh, the capital of Saudi Arabia, and approximately 1,400 telex lines have been brought into service.

Programs are underway to introduce a nation-wide seven-digit number system, publish six regional telephone directories and improve operator services, especially for international calls. A computerized directory assistance system was launched in December and a complete reorganization of repair service procedures has resulted in a sharp decline in the number of subscriber complaints.

Bell Canada employees are developing plans, methods and procedures covering every facet of telephone operations.

Accounting employees have developed a new financial system of accounts for asset, expense and customer billing.

The task of logistical support and supply obligations is proceeding satisfactorily. The supply of more than 700 new vehicles has been completed and delivery of computer hardware for mid-1979 is on schedule. Bell Canada has completed designs, site plans, and land selection for construction by a subcontractor of operations and maintenance buildings.

Manufacturing

Northern Telecom's consolidated sales in 1978 were an all-time high of $1,505 million, up 23.2% from $1,222 million in 1977. Earnings of $94.4 million, or $3.33 a share, before extraordinary items, were up from $81.8 million, or $3.09 a share a year earlier.

In order to expand its telecommunications equipment product lines and gain entry in the electronic office systems industry, Northern Telecom acquired four U.S. companies in 1978. These acquisitions contributed $228.1 million to Northern Telecom's total 1978 consolidated sales. The company is actively considering other possible acquisitions or investments.

Northern Telecom discontinued early in 1979 its electrical and electronic products distribution business, selling certain assets, mainly inventories of two Canadian wholly-owned subsidiaries, Nedco Ltd. and Zentronics Ltd. The two distributors no longer complement the nature and direction of Northern Telecom's business.

The first member of Northern Telecom's new generation of fully digital telecommunications switching systems (DMS-10) was in service at the end of 1978 in 39 locations in North America switching some 44,000 customers' lines. Bell Canada's first installation was in Embrun, Ontario in October. A new digital microwave transmission system, (DRS-8), the first of its kind in the world,

Right
Fibre optics are being used experimentally to provide telephone service to a group of Toronto residents.

was supplied by Northern Telecom to Bell Canada and went into service between North Bay and Toronto in September. A large scale long distance switching system (DMS-200) was introduced into Bell Canada's network in January 1979 and a major local switching system (DMS-100) is expected to come on stream later this year.

At the end of 1978 some 16% of total telephones in the Bell Canada network were controlled by electronic switching equipment. This compares with only 3% in 1972.

The DMS family of products developed by Bell-Northern Research will be Bell Canada's primary vehicle for local and long distance growth and modernization in the 1980's. They are the forerunners of products that are designed to provide the capability of directly integrating digital transmission and switching systems.

Fibre Optics

A new era in telecommunications technology came closer to reality in December with the start of a fibre optics residential field trial in the Yorkville area of Toronto. Utilizing hair-thin strands of glass fibres to carry information on laser light waves, fibre optics is being used to connect telephone service to approximately 35 customers homes.

The Yorkville fibre optics demonstration and test centre was also opened in December as part of the trial. At the centre, telephone, television and data services, including simulated CATV, are carried over a single glass fibre demonstrating integrated distribution plant.

Additional applications scheduled for testing and demonstration on fibre optics over the two-year field trial include prototype security-alarm systems, coin telephone, home computer communications, electronic mail and Vista.

One pair of fibres can carry more than 4,000 telephone conversations or several television programs simultaneously, or hundreds of millions of computer "bits" a second, replacing a heavy three-inch copper cable.

This new technology will have a major impact on the future design, capacity, and capabilities of Bell Canada's telecommunications network. The field trial is a joint project of Bell-Northern Research, Northern Telecom and Bell Canada, leaders in the research and development of fibre optics.

Vista

Bell Canada began in February this year a pilot demonstration of a new concept in two-way information for home and office use. Named Vista, the experimental system will deliver a wide range of information and communications services using the existing public telephone network. The television set serves as the display device for text and graphic information.

The pilot trial, which Bell Canada will run throughout 1979, is intended primarily to gain practical experience with the retrieval and display aspects for a variety of information. (Videotex, is the international generic term for this type of system).

Southam Press Limited and Torstar Corporation are participating with Bell Canada in the demonstration of the system which was designed and developed by Bell-Northern Research. The pilot project will also experiment and demonstrate technology developed by the Communications Research Centre, an arm of the Department of Communications.

Results of the Vista pilot project will be evaluated with a view to conducting a large scale marketing test in 1980.

Bell Canada is both a company providing telecommunications services to the public and a company holding investments in other businesses, mainly telecommunications services and manufacturing companies.

The consolidated financial statements provide a broad picture of the size and scope of the combined operations of the parent company (Bell Canada) and companies in which Bell Canada has a substantial equity interest.

The non-consolidated financial statements give a review of the parent company, which is also the major telecommunications services operating company, disclosing information that is pertinent and necessary to a fuller understanding by the shareholder about the availability of earnings to cover his dividend requirements and to the debt holder to cover interest obligations.

If you aren't an accountant and find that annual reports are "over your head", perhaps the following explanations of the non-consolidated financial statements can assist you in achieving a better understanding and becoming a better informed shareholder.

For the purpose of this discussion let's use "the Bell group", or merely "the group" when we refer to Bell Canada and its subsidiary companies (consolidated) and the term "Bell Canada" when referring to the parent company only (non-consolidated).

Bell Canada, like all companies is essentially a conduit for funds. Money is received from various customers and investors and is disbursed to the various suppliers of resources—labor, material and capital (for shareholders, for example, this means dividends). Whatever is left over, after various taxes have been paid, is available for reinvestment in the business.

Bell Canada provides the bulk of the group's earnings. These amounted before extraordinary item to about 74.6% in 1978 with Northern Telecom Limited and its subsidiaries adding 15.2% and other subsidiaries and associated companies providing the remaining 10.2%.

Consolidated earnings aren't available to pay Bell Canada's interest or dividends. It is the parent company earnings, including dividends received from other companies in the group, that are used to pay dividends to preferred and common

Summarized Income Statement
Non-Consolidated

Thousands of dollars

		1978	1977
Telecommunications operations	Operating revenues		
	Local service	$1,263,096	$1,107,640
	Long distance service	1,152,507	$ 970,453
	Miscellaneous – net	81,827	55,322
	Total operating revenues	2,497,430	2,133,415
	Operating expenses	1,784,497	1,572,495
	Net operating revenues	712,933	560,920
	Other income		
	Dividends		
	subsidiary companies	21,357	19,637
	associated companies	7,559	7,362
	Interest charged to construction	13,530	15,683
	Miscellaneous – net	14,342	10,279
	Total other income	56,788	52,961
	Income before underlisted items	769,721	613,881
	Interest charges	231,020	202,393
	Unrealized foreign currency losses	5,487	—
	Income before income taxes	533,214	411,488
	Income taxes	240,118	178,593
	Income – telecommunications operations	293,096	232,895
Contract operations	Revenues	185,653	—
	Operating expenses	165,843	—
	Net contract revenues	19,810	—
	Miscellaneous – net	(2,761)	—
	Income before income taxes	17,049	—
	Income taxes	9,328	—
	Income – contract operations	7,721	—
	Income before extraordinary item	300,817	232,895
	Extraordinary item	4,122	—
	Net income	**304,939**	**232,895**
	Dividends on preferred shares	38,702	31,534
	Net income applicable to common shares	**$ 266,237**	**$ 201,361**

shareholders and pay bond and debenture interest.

The dividends paid by other companies in the group to Bell Canada and their other shareholders must reflect broader considerations than the immediate financial interest of Bell Canada. A part of any company's earnings must be reinvested to assist in the expansion of its business and to enable it to raise and service the additional capital which is also necessary to ensure a company's future success.

It is also the parent company earnings with which the company computes its rate of return on average common equity and on which it is regulated by the Canadian Radio-television and Telecommunications Commission.

But perhaps we are getting ahead of ourselves a little bit. Let's go back to the top of the non-consolidated income statement. The first part of the statement deals with telecommunications operations, by far the largest segment of the parent company. It shows that Bell Canada received in 1978 from its customers a total of $2,497.4 million in return for the provision of telecommunications and related services. Of this money we must pay our employees who supply the labor, and other suppliers of goods and services, including sales and other taxes. An additional expense is depreciation, an annual charge to operating costs to represent the using up of plant and equipment. These are known as operating expenses and after deducting $1,784.5 million for all these items, the result is net operating revenues of $712.9 million. As stated earlier, Bell Canada is a holder of shares in a number of businesses, such as Northern Telecom and the telephone companies providing services in the Atlantic Provinces and Northern Ontario. As a shareholder itself, Bell Canada receives dividends on the shares it owns in these companies. Dividends received in 1978 amounted to some $28.9 million and these are passed on to you, the Bell Canada shareholder. Other income, including interest charged to construction and miscellaneous income, is an additional source of earnings for Bell Canada. Combining all these amounts leaves us with $769.7 million available to satisfy the requirements of the investor and the tax collector.

A substantial portion (slightly over 50%) of Bell Canada's capital is in the form of borrowed money with a requirement to pay interest of $231 million to the people who lend this money. Over one-third of Bell Canada's debt has been raised in U.S. dollars to take advantage of interest savings prevailing at the time of issue. Because the value of the Canadian dollar has currently declined against its U.S. counterpart, Canadian accounting rules require that recognition be given to the potential that currency losses may be incurred when foreign debt matures. The method used is to charge a portion of these unrealized foreign currency losses each year against income. This method of accounting was introduced in 1978 by the Canadian Institute of Chartered Accountants and resulted in a deduction of $5.5 million. The tax man is next, accounting for an additional $240.1 million, leaving net telecommunications income of $293.1 million. You can see that the tax man is an important "partner" in our business.

A further segment of the company's business is contract operations, principally the Saudi Arabia project which began during 1978. In the same manner as telecommunications operations, this segment earns revenues, pays expenses and income taxes, and earns income and this amounted to $7.7 million, which when added to telecommunications net income results in non-consolidated income before extraordinary item of $300.8 million.

Next is what is known as an extraordinary item, a term used to describe either gains or losses from activities that are not a part of the company's normal course of business. In Bell Canada's case, this item totalled $4.1 million resulting from a gain to the company on the exercise of Northern Telecom warrants. The balance of $304.9 million is available to preferred and common shareholders. Preferred shareholders are entitled to their dividends ahead of the common shareholders, and after paying them, $266.2 million was available for common stockholders.

Now we are back to where we prematurely jumped earlier. The amount of earnings on which Bell Canada's rate of return is calculated is after everyone has been paid, except the common shareholders. Net income before extraordinary item available to common shareholders of $262.1 million represents an 11.09% return on average common equity. This rate of return is calculated by computing the average monthly common equity, (in 1978 it was $2.4 billion), and dividing it into the net income before extraordinary item available to common shareholders.

Out of net income available for common shareholders must come common dividends. These dividends amounted to $193.1 million, leaving a balance of $73.1 million for reinvestment in the business, not a sizeable amount when you consider that Bell Canada will spend about $1.1 billion on capital projects in 1979.

We hope this "walk" through the non-consolidated income statement has provided you with an improved insight and understanding of the company's operations and its financial results.

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Bell Canada and its subsidiaries have been prepared in accordance with Canadian generally accepted accounting principles which are in general consistent with those in the United States except for the differences described in note 1 of Notes to Financial Statements.

The integrity and objectivity of data in these financial statements are the responsibility of management. To this end, management maintains a highly developed system of internal accounting controls and supports an extensive program of internal audits.

Management believes that the system of internal accounting controls provides a reasonable assurance that;

—transactions are executed in accordance with management's general or specific authorization;

—transactions are recorded as necessary to permit the preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets;

—access to assets is permitted only in accordance with management's general or specific authorization; and

—the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

These financial statements have been examined by Touche Ross & Co., Chartered Accountants, and their report is shown below.

The Board of Directors pursues its responsibility for these financial statements through its Audit Committee which meets periodically with both management and the external auditors who have full and free access to the Audit Committee, and meet with it, with and without management being present, to discuss auditing and financial reporting matters.

G. L. Henthorn
Vice-President & Comptroller

Auditors' Report

The Shareholders, Bell Canada

We have examined the consolidated balance sheets of Bell Canada as at December 31, 1978 and 1977 and the consolidated statements of income, retained earnings, premium on capital stock and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and 1977 and the results of its operations and the changes in its financial position for the years then ended in accordance with Canadian generally accepted accounting principles applied (except for the change, which we approve, in the method of accounting for translation of foreign currencies described in note 2) on a consistent basis.

Touche Ross & Co.
Chartered Accountants

Montréal, Québec
February 13, 1979

Consolidated Income Statement

For the years ended December 31

		Thousands of dollars	
		1978	1977†
Telecommunications operations	Operating revenues		
	Local service	$1,312,734	$1,151,763
	Long distance service	1,223,314	1,031,553
	Miscellaneous – net	85,670	58,339
	Total operating revenues	2,621,718	2,241,655
	Operating expenses	1,865,958	1,646,296
	Net operating revenues	755,760	595,359
Manufacturing and distributing	Sales (note 1)	1,469,997	1,194,728
	Cost of sales	998,569	846,312
	Selling, general, administrative and other expenses	326,759	227,389
		1,325,328	1,073,701
	Net sales revenues	144,669	121,027
Contract and directory operations	Revenues	282,640	76,781
	Operating expenses	237,253	62,238
	Net revenues – contract and directory operations	45,387	14,543
	Total net revenues	945,816	730,929
	Other income		
	Interest charged to construction	14,087	16,193
	Equity in net income of associated companies and non-consolidated subsidiaries (note 3)	16,923	14,384
	Miscellaneous — net	18,106	10,289
	Total other income	49,116	40,866
	Interest charges		
	Interest on long term debt	255,350	213,371
	Other interest	8,127	8,454
	Total interest charges	263,477	221,825
	Income before underlisted items	731,455	549,970
	Unrealized foreign currency losses (gains) (notes 1, 2 and 18)	259	(5,987)
	Income before income taxes, minority interest and extraordinary items	731,196	555,957
	Income taxes (note 4)	323,585	242,098
	Income before minority interest and extraordinary items	407,611	313,859
	Minority interest	37,049	27,651
	Income before extraordinary items	370,562	286,208
	Extraordinary items (note 5)	24,490	2,367
	Net income (note 18)	**395,052**	**288,575**
	Dividends on preferred shares	38,702	31,534
	Net income applicable to common shares	**$ 356,350**	**$ 257,041**
	Earnings per common share* (notes 7 and 18)		
	before extraordinary items	$7.46	$5.98
	extraordinary items	$0.55	$0.06
	after extraordinary items	$8.01	$6.04
	Assuming full conversion of convertible preferred shares		
	before extraordinary items	$7.09	$5.80
	extraordinary items	$0.48	$0.05
	after extraordinary items	$7.57	$5.85
	Dividends declared per common share	$4.29	$4.08
	*Based on average common shares outstanding (thousands)	44,465	42,554

†See note 21.

Consolidated Balance Sheet

As at December 31

Assets		1978	1977†
		Thousands of dollars	
Telecommunications property – at cost (note 8)	Buildings, plant and equipment	$8,826,260	$8,065,501
	Less: Accumulated depreciation	2,614,419	2,370,978
		6,211,841	5,694,523
	Land	61,833	55,729
	Plant under construction	221,181	211,929
	Material and supplies	107,746	102,807
		6,602,601	6,064,988
Manufacturing and distributing property – at cost (note 8)	Buildings, plant and equipment	590,243	377,903
	Less: Accumulated depreciation	234,651	206,287
		355,592	171,616
	Land	12,796	11,837
		368,388	183,453
		6,970,989	6,248,441
Investments	Associated companies and non-consolidated subsidiaries – at equity (note 1)	151,318	146,025
	Other	5,723	2,346
		157,041	148,371
Current assets	Cash and temporary cash investments – at cost (approximates market)	228,986	130,248
	Accounts receivable – principally from customers (including $3,598 (1977 - $2,623) from associated companies)	773,496	422,814
	Inventories (note 9)	361,402	218,437
	Other (principally prepaid expenses)	77,877	54,247
		1,441,761	825,746
Other assets	Cash and temporary cash investments held for contract operations – at cost (approximates market)	91,851	—
	Long term receivables	44,932	—
	Deferred charges		
	contract operations	112,912	—
	unrealized foreign currency losses, less amortization	165,162	62,993
	other	84,371	43,324
	Cost of shares in acquired subsidiaries in excess of underlying net assets, less amortization (note 1)	127,989	10,354
	Other	8,275	3,662
		635,492	120,333
	Total assets	**$9,205,283**	**$7,342,891**

†See note 21.

On behalf of the Board of Directors:

Marcel Bélanger
Director

John H. Moore
Director

Liabilities and Shareholders' Equity		Thousands of dollars 1978	1977†
Shareholders' equity	Capital stock (notes 10 and 22)		
	Preferred shares	$ 404,730	$ 356,492
	Common shares	1,176,622	1,094,008
	Premium on capital stock	607,388	527,143
	Contributed surplus	15,290	15,290
	Retained earnings	1,041,075	882,537
		3,245,105	2,875,470
Minority interest in subsidiary companies	Preferred shares	30,908	31,543
	Common shares	265,770	153,305
		296,678	184,848
Long term debt (including unrealized foreign currency losses) (note 11)		3,381,086	2,742,860
Current liabilities	Accounts payable	477,831	320,700
	Advance billing for service	49,617	42,630
	Dividends payable	60,889	50,213
	Taxes accrued	110,879	20,208
	Interest accrued	71,497	56,161
	Debt due within one year (note 12)	280,796	195,641
		1,051,509	685,553
Deferred credits	Income taxes	933,900	832,384
	Other (note 13)	297,005	21,776
		1,230,905	854,160
Commitments and contingent liabilities (notes 8 and 13)			
	Total liabilities and shareholders' equity	**$9,205,283**	**$7,342,891**

G. L. Henthorn
Vice-President & Comptroller

Consolidated Statement of Premium on Capital Stock

For the years ended December 31

	Thousands of dollars	
	1978	1977
Balance at beginning of year	$ 527,143	$ 460,878
Premium on common shares issued during the year	80,245	66,265
Balance at end of year	$ 607,388	$ 527,143

Consolidated Statement of Retained Earnings

For the years ended December 31

	Thousands of dollars	
	1978	1977
Balance at beginning of year	$ 882,537	$ 804,750
Net income	395,052	288,575
Excess of par value over cost of preferred shares purchased for cancellation (note 10)	4	66
	1,277,593	1,093,391
Deduct:		
Dividends		
Preferred shares	38,702	31,534
Common shares	193,113	175,626
	231,815	207,160
Expenses of issues of capital stock	4,703	3,694
	236,518	210,854
Balance at end of year	$1,041,075	$ 882,537

Consolidated Statement of Changes in Financial Position

For the years ended December 31

		Thousands of dollars	
		1978	1977†
Source of funds	Operations		
	Income before extraordinary items	$ 370,562	$ 286,208
	Items not affecting current funds		
	Depreciation	550,058	479,915
	Deferred income taxes	101,516	114,912
	Interest charged to construction	(14,087)	(16,193)
	Other – net	52,656	33,924
	Total from operations	1,060,705	898,766
	Extraordinary items (note 5)	24,490	2,367
	Proceeds from long term debt	658,979	293,050
	Proceeds from issue of Bell Canada common shares		
	upon exercise of warrants	—	118,607
	under the dividend reinvestment and stock purchase plan	30,134	—
	Proceeds from issue of Bell Canada preferred shares	170,903	—
	Proceeds from issues of shares by subsidiaries		
	to minority shareholders	96,724	9,701
	Advance payment on contract operations (note 13)	190,587	—
	Issue of common shares upon conversion of		
	convertible preferred shares	125,820	18,952
	Miscellaneous	117,138	12,689
	Decrease in working capital	—	42,369
		$2,475,480	$1,396,501
Disposition of funds	Capital expenditures		
	Gross capital expenditures	$1,183,972	$1,045,665
	Deduct: charges not requiring funds	(24,395)	(13,748)
	Increase (decrease) in material and supplies	4,939	(2,296)
	Net expenditures	1,164,516	1,029,621
	Dividends by Bell Canada	231,815	207,160
	Dividends by subsidiaries to minority shareholders	11,508	10,730
	Reduction of long term debt	246,018	88,668
	Acquisition of investments (less working capital		
	acquired in 1978 of $107,427)	213,006	34,348
	Conversion of preferred shares	125,848	18,975
	Cash and temporary cash investments held for		
	contract operations	91,851	—
	Deferred charges – contract operations	112,912	—
	Miscellaneous	27,947	6,999
	Increase in working capital	250,059	—
		$2,475,480	$1,396,501
	The increase (decrease) in working capital is accounted for by –		
	Increase (decrease) in current assets:		
	Cash and temporary cash investments	$ 98,738	$(63,336)
	Accounts receivable	350,682	66,654
	Inventories	142,965	(4,844)
	Other	23,630	4,502
	(Increase) decrease in current liabilities:		
	Accounts payable	(157,131)	(30,894)
	Advance billing for service	(6,987)	(5,169)
	Dividends payable	(10,676)	(6,680)
	Taxes accrued	(90,671)	12,501
	Interest accrued	(15,336)	(10,829)
	Debt due within one year	(85,155)	(4,274)
	Increase (decrease) in working capital, as above	$ 250,059	$(42,369)

†See note 21.

1. Accounting policies

The accompanying financial statements, which have been approved by the Audit Committee on February 13, 1979, have been prepared in accordance with Canadian generally accepted accounting principles. With respect to the consolidated financial statements of Bell Canada and its subsidiary companies, the only important differences between Canadian and United States generally accepted accounting principles as described in note 18, are: a) the method of accounting for translation of foreign currencies and b) the accounting treatment of an increase in book value in a subsidiary's net assets resulting from the issuance of shares not purchased by the parent company. Another difference is in regard to the financial statement presentation of the results of the disposal of a segment of a business, as described in note 6.

Bell Canada and its telephone subsidiary and associated companies are subject to regulation, including examination of accounting practices, by their respective regulatory authorities. Bell Canada is regulated on the basis of its non-consolidated financial statements in which its investments in subsidiary and associated companies are carried at cost. The system of accounts and accounting practices are similar to those being used in the telecommunications industry.

Consolidation

The consolidated financial statements include the accounts of all, directly or indirectly, majority-owned subsidiaries except for certain subsidiaries of Northern Telecom Limited (its finance subsidiaries and NETAS-Northern Electric Telekomünikasyon, A.S. "Netas"). These non-consolidated subsidiaries and the investments in associated companies (50% or less, and 20% or more) have been accounted for by the equity method. The finance subsidiaries are not consolidated as their business is different from that of the consolidated group. Netas, which was fully consolidated in 1977 and prior years, is now accounted for on the equity method as Northern Telecom Limited is required to reduce its holdings in that company to below 50%. For comparative purposes, previously reported data have been restated to reflect the equity method of accounting for this subsidiary. This restatement had no effect on consolidated net income for either year. The associated companies of Bell Canada and its subsidiaries at December 31, 1978 were Maritime Telegraph & Telephone Company, Limited,(1) The New Brunswick Telephone Company, Limited, Telesat Canada, SOTEL INC. and Intersil, Inc.

The companies in which Bell Canada had a direct investment of more than 50% of common shares outstanding at December 31, 1978 were:

Northern Telecom Limited (2)	61%
Newfoundland Telephone Company Limited	66
Northern Telephone Limited	99.8
Télébec Ltée	100
Lièvre Valley Telephone Company	100
The Capital Telephone Company Limited	100
The North American Telegraph Company	100
Bell Canada–International Management, Research and Consulting Ltd.	100

For companies acquired the excess of cost of shares over acquired equity is being amortized to earnings over periods not exceeding forty years. Such amortization amounted to $4,142,000 in 1978 ($929,000-1977).

Bell Canada's summarized income statement, balance sheet and statement of changes in financial position, on a non-consolidated basis, are presented on pages 38 to 40.

(1) At December 31, 1978, Bell Canada was the registered owner of 2,172,200 or 39.2% of the outstanding common shares of Maritime Telegraph & Telephone Company, Limited; however, under a statute passed by the Legislature of Nova Scotia, not more than 1,000 shares may be voted by any one shareholder.

(2) At December 31, 1978, Bell Canada was the beneficial owner of 18,064,318 or 61% (18,304,334 or 69.2% at December 31, 1977) of the outstanding common shares of Northern Telecom Limited. Assuming exercise of the warrants outstanding at December 31, 1978, the shareholding would be 55.1%. Each warrant entitles the holder to purchase from Bell Canada prior to December 1, 1979 one common share of Northern Telecom Limited at $21.50. At December 31, 1978, 1,751,818 common shares of Northern Telecom Limited were deposited in escrow with the Warrant Trustee for that purpose.

1. Accounting policies (continued)

Consolidation (continued)

Manufacturing and distributing sales comprise:

	Thousands of dollars	
	1978	1977
Sales to:		
Bell Canada	$ 536,684	$ 533,235
Telephone subsidiary and associated companies of Bell Canada	50,694	52,046
Sub-total	587,378	585,281
Sales to others	882,619	609,447
Total sales	$1,469,997	$1,194,728

Telecommunications equipment, purchased by Bell Canada and its telephone subsidiaries from Northern Telecom Limited and its subsidiaries, is reflected in the consolidated balance sheet at cost to the purchasing companies, and is included in Manufacturing and distributing sales in the consolidated income statement. To the extent that any income on these sales and those to associated companies has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. This practice is generally followed in the industry. All other significant intercompany transactions have been eliminated in the accompanying consolidated financial statements.

Depreciation

Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets.

When depreciable telecommunications property is retired, the amount at which such property has been carried in Telecommunications property is charged to Accumulated depreciation.

Depreciation expense, including amortization of property held under capital leases, for the year ended December 31, 1978 was $550,058,000 ($479,915,000–1977) and the composite rate was 6.33% (6.16%–1977).

Maintenance and repairs

The cost of maintenance and repairs of property is expensed as incurred.

Research and development

All research and development costs incurred, which amounted to $150,936,000 ($112,668,000—1977), were charged to income.

Translation of foreign currencies

In 1978, Bell Canada and its subsidiaries adopted the recommendations of the Canadian Institute of Chartered Accountants for translation of foreign currency transactions and foreign currency financial statements. Consequently, current assets (excluding inventories and prepaid expenses), current liabilities and long term monetary assets and liabilities are translated at the rates in effect at the balance sheet date, whereas other assets (including inventories and prepaid expenses) and other liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year except for cost of inventories used, depreciation and amortization which are translated at rates prevailing when the related assets were acquired. Currency gains and losses are reflected in net income of the year except for unrealized foreign currency gains and losses on long term monetary assets and liabilities which are amortized over the remaining lives of the related items. In 1978, unrealized foreign currency losses charged to income were $259,000, consisting of the amortization of $7,197,000 (Nil—1977) of foreign currency losses on long term debt less gains of $6,938,000 ($5,987,000—1977) on the translation of foreign currency financial statements and net assets denominated in foreign currencies.

Leases

Leases are classified as capital or operating leases. Assets recorded under capital leases are amortized on a straight line method using rates based on the estimated useful life of the asset or based on the lease term as appropriate. Obligations recorded under capital leases are reduced by rental payments net of imputed interest.

1. Accounting policies (continued)

Inventories
Inventories held by the manufacturing and distributing subsidiaries are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

Interest charged to construction
Regulatory authorities allow the telephone companies to provide for a return on capital invested in new telephone plant while under construction by including Interest charged to construction as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Contract operations
Bell Canada provides commercial consulting services under contract to clients, principally foreign telecommunications organizations. The accounting method generally known as percentage-of-completion is used in the determination of net income for such operations.

Income taxes
Bell Canada and its subsidiaries use the tax allocation basis of accounting for income taxes. Reductions in income taxes relating to losses carried forward in subsidiaries are not recorded in the accounts until the date of their realization.

2. Accounting change – translation of foreign currencies

In the fourth quarter of 1978, Bell Canada and its subsidiaries changed their method of accounting for translation of foreign currencies as described in note 1.
This change resulted in a decrease in consolidated net income of $7,170,000 in 1978 including the effect on prior years' income which have not been restated as the amounts are not material. The comparative balance sheet for 1977 has been restated to include unrealized foreign currency losses in long term debt.

3. Equity in net income of associated companies and non-consolidated subsidiaries

This item represents Bell Canada's share of net income of companies accounted for by the equity method. The dividends received from these companies amounted to $7,926,000 in 1978 ($8,056,000—1977).

4. Income taxes

A reconciliation of the statutory income tax rate in Canada to the effective income tax rate is as follows:

	1978	1977
Statutory income tax rate	48.5%	48.0%
i) Interest charged to construction, net of applicable depreciation adjustment	(0.5)	(0.9)
ii) Reduction of Canadian Federal taxes applicable to manufacturing profits	(0.9)	(1.2)
iii) Equity in net income of associated companies and non-consolidated subsidiaries	(1.1)	(1.3)
iv) Tax credit on research and development expenditures	(1.1)	(0.4)
v) Inventory credit	(0.3)	(0.4)
vi) Other	(0.3)	(0.3)
Effective income tax rate	44.3%	43.5%

Details of the company's income taxes are as follows:

	Thousands of dollars	
	1978	1977
Current	$222,069	$127,186
Deferred	101,516	114,912
Total income taxes	$323,585	$242,098

Deferred income taxes result principally from deductions for tax purposes, in respect of plant, being in excess of amounts currently charged to operations.

5. Extraordinary items

	Thousands of dollars	
	1978	1977
i) Reduction of income taxes, net of minority interest of $3,407,000 ($1,055,000—1977), arising from the utilization of prior years' tax losses of subsidiaries ($0.20 ($0.06—1977) per common share)	$ 8,964	$2,367
ii) Increase in book value in subsidiaries, reported on a consolidated basis, resulting principally from the issuance of common shares by Northern Telecom Limited upon the acquisition of Sycor, Inc. The Canadian practice is to include this increase as income whereas the practice in the United States is to treat it as paid-in capital ($0.39 per common share)	17,474	—
iii) Provision (net of income taxes of $3,648,000 and minority interest of $1,244,000) for costs of terminating the electrical and electronic products distribution business of Northern Telecom Limited ($0.04 per common share)	(1,948)	—
	$24,490	$2,367

6. Disposal of a segment of a business

Certain of the assets of subsidiaries in the electrical and electronic products distribution business were sold in January 1979. The results of continuing and discontinued operations due to the termination as of December 31, 1978 of such business are as follows:

	Thousands of dollars except per share amounts	
	1978	1977
Manufacturing and distributing – sales		
Continuing operations	$1,331,360	$1,047,121
Discontinued operations	138,637	147,607
	$1,469,997	$1,194,728
Consolidated income		
Continuing operations	$ 369,734	$ 284,933
Discontinued operations	(1,120)	1,275
Extraordinary items	26,438	2,367
Net income	$ 395,052	$ 288,575
Earnings per common share assuming full conversion of convertible preferred shares		
Continuing operations	$ 7.07	$ 5.77
Discontinued operations	(0.02)	0.03
Extraordinary items	0.52	0.05
	$ 7.57	$ 5.85

7. Earnings per common share

Earnings per common share are based on average shares outstanding. For the computation of the earnings per share, assuming full conversion of convertible preferred shares, the dividends on convertible preferred shares have been added back to income.

8. Leases

Telecommunications property and Manufacturing and distributing property include property recorded under capital leases as follows:

	Thousands of dollars	
	Dec. 31, 1978	Dec. 31, 1977
Telecommunications property		
Buildings, plant and equipment	$51,096	$57,519
Less: Accumulated depreciation	14,009	16,004
	37,087	41,515
Land	3,350	3,350
	$40,437	$44,865
Manufacturing and distributing property		
Buildings, plant and equipment	$20,400	$ 2,848
Less: Accumulated depreciation	2,216	1,808
	$18,184	$ 1,040

8. Leases (continued)

The future minimum lease payments under capital leases, and operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of December 31, 1978, are as follows:

	Thousands of dollars	
	Capital leases	Operating leases
1979	$ 12,599	$ 39,664
1980	12,438	32,766
1981	12,167	23,246
1982	10,844	17,111
1983	9,811	14,128
Thereafter	143,688	69,965
Total future minimum lease payments	201,547	$196,880
Less: Estimated executory costs	67,830	
Net minimum lease payments	133,717	
Less: Imputed interest	71,766	
Present value of net minimum lease payments	$ 61,951	

Rental expense applicable to all operating leases for the year 1978 was $92,846,000 ($78,805,000—1977).

Bell Canada has agreed to purchase a mortgage for a sum not to exceed $37,106,000 in the event of mortgage payment default by the owner of a building. In such event the future minimum lease payments included in capital leases above will be reduced by approximately $81,344,000.

9. Inventories

	Thousands of dollars	
	Dec. 31, 1978	Dec. 31, 1977
Manufacturing and distributing		
Raw materials	$118,400	$ 55,834
Work-in-process	135,490	83,031
Finished goods	107,512	79,572
	$361,402	$218,437

10. Capital stock

Authorized

By charter—$5,000,000,000 (increased from $1,750,000,000 by an amendment to Bell Canada's Act of Incorporation, effective April 12, 1978).

By shareholders—$1,750,000,000 (1) divided into common shares of the par value of $25 each, and: (a) not more than 2,000,000 of a class of preferred shares to a maximum aggregate amount of $94,000,000; (b) not more than 9,000,000 of another class of preferred shares to a maximum aggregate amount of $225,000,000; (c) not more than 7,000,000 of another class of preferred shares to a maximum aggregate amount of $219,000,000; and (d) not more than 8,000,000 of another class of preferred shares to a maximum aggregate amount of $200,000,000.

(1) See note 1 on following page

10. Capital stock (continued)

Changes in Bell Canada's issued capital stock during 1978 were as follows:

		Outstanding at Jan. 1, 1978	Issued for cash	Conversion of preferred shares	Purchases of preferred shares for cancellation	Outstanding at Dec. 31, 1978
Preferred shares						Dollars in thousands
Cumulative, redeemable, convertible and voting	$3.20 shares (par value of $47 per share)					
	Number	247,777	—	(108,505)	—	139,272
	Total par value	$ 11,645	—	$ (5,099)	—	$ 6,546
	$3.34 shares, class B, series B (par value of $52 per share)					
	Number	252,899	—	(133,903)	—	118,996
	Total par value	$ 13,151	—	$ (6,963)	—	$ 6,188
	$4.23 shares, class C, series D (par value of $47 per share)					
	Number	1,955,195	—	(1,386,481)	—	568,714
	Total par value	$ 91,894	—	$ (65,164)	—	$ 26,730
	$2.28 shares, class C, series E (par value of $25 per share)					
	Number	4,996,887	—	(1,938,562)	—	3,058,325
	Total par value	$ 124,922	—	$ (48,464)	—	$ 76,458
	$1.96 shares, class D, series G (par value of $25 per share)					
	Number	—	7,000,000	(6,265)	—	6,993,735
	Total par value	—	$ 175,000	$ (157)	—	$ 174,843
Cumulative, redeemable and voting	$2.25 shares, class B, series C (par value of $30 per share)					
	Number	1,496,000	—	—	(30,500)	1,465,500
	Total par value	$ 44,880	—	—	$ (915)	$ 43,965
	$1.80 shares, class B, series F (par value of $20 per share)					
	Number	3,500,000	—	—	—	3,500,000
	Total par value	$ 70,000	—	—	—	$ 70,000
	Total par value of preferred shares	$ 356,492	$ 175,000	$ (125,847)	$ (915)	$ 404,730
Common shares[1]						
	(par value of $25 per share)					
	Number	43,760,304	702,760[2]	2,601,817	—	47,064,881
	Total par value	$ 1,094,008	$ 17,569[2]	$ 65,045	—	$ 1,176,622

(1) On November 22, 1978, the Board of Directors (a) resolved to increase the authorized capital stock from $1,750,000,000 to $5,000,000,000, (b) enacted a by-law subdividing each of the issued and unissued common shares of the par value of $25 each into three common shares of the par value of $8⅓ each and (c) enacted a by-law creating ten additional classes of preferred shares for an aggregate amount not exceeding $1,000,000,000. These actions are subject to confirmation by the shareholders at the Annual and Special General Meeting of Shareholders to be held on April 17, 1979.
(2) The common shares issued for cash represent 546,957 shares issued under the Shareholder Dividend Reinvestment and Stock Purchase Plan and 155,803 shares purchased by employees through assignment of dividends under the provisions of the Employees' Savings Plan (1966). The excess of proceeds over par value amounting to $19,471,000 was allocated to Premium on capital stock.

10. Capital stock (continued)

The $3.20 preferred shares are currently redeemable, at Bell Canada's option, at $47 plus a premium of $2.00 to February 1, 1979, diminishing by $.50 at the end of each subsequent year to February 1, 1982, and thereafter at $47. Each $3.20 preferred share may be converted into one common share on or before February 1, 1982. At December 31, 1978, 1,860,728 of these shares had been converted (including 143,422 during 1977).

The $3.34 preferred shares, class B, series B, are currently redeemable, at Bell Canada's option, at $52 plus a premium of $2.50 to August 1, 1979, diminishing by $.50 at the end of each subsequent year to August 1, 1983, and thereafter at $52. The $3.34 preferred shares are convertible into common shares on or before August 1, 1983. Prior to October 22, 1975 they were convertible on a one for one basis; effective that date, the conversion ratio was changed to 1.012 common shares for each preferred share. At December 31, 1978, 1,881,004 of these shares had been converted (including 196,733 during 1977).

The $4.23 preferred shares, class C, series D, are not redeemable prior to December 1, 1980, but may be redeemed thereafter, at Bell Canada's option, at $47 plus a premium of $4.00 diminishing by $.70 at the end of each subsequent year to December 1, 1983, by $.60 at December 1, 1984, by $.70 at December 1, 1985, by $.60 at December 1, 1986, and thereafter at $47. Each $4.23 preferred share may be converted into one common share on or before December 1, 1986. At December 31, 1978, 1,431,286 of these shares had been converted (including 41,105 during 1977).

The $2.28 preferred shares, class C, series E, are not redeemable prior to July 2, 1981, but may be redeemed thereafter, at Bell Canada's option, at $25 plus a premium of $2.00 diminishing by $.35 at the end of each subsequent year to July 2, 1986, by $.25 at July 2, 1987, and thereafter at $25. Two $2.28 preferred shares may be converted into one common share on or before July 2, 1987. At December 31, 1978, 1,941,675 of these shares had been converted (including 2,875 during 1977).

The $1.96 preferred shares, class D, series G, are not redeemable prior to May 1, 1984, but may be redeemed thereafter, at Bell Canada's option, at $25 plus a premium of $1.50 diminishing by $.25 at the end of each subsequent year to May 1, 1990 and thereafter at $25. Notwithstanding the above, in the event that not more than 1,050,000 $1.96 preferred shares remain outstanding, Bell Canada may redeem all, but not part, of such shares without premium together with accrued and unpaid dividends to the date fixed for redemption. Five $1.96 preferred shares may be converted into two common shares on or before May 1, 1990. At December 31, 1978, 6,265 shares had been converted.

The $2.25 preferred shares, class B, series C, are not redeemable prior to October 1, 1983, but may be redeemed thereafter, at Bell Canada's option, at $30 plus a premium of $1.50 diminishing by $.375 at the end of each subsequent five year period to October 1, 2003, and thereafter at $30. At December 31, 1978 pursuant to the conditions attaching to the issue of these shares, 234,500 shares with an aggregate par value of $7,035,000 had been purchased and cancelled (including 51,000 shares with an aggregate par value of $1,530,000 during 1977).

The $1.80 preferred shares, class B, series F, are not redeemable prior to October 2, 1986, but may be redeemed thereafter, at Bell Canada's option, at $20 plus a premium of $1.20 diminishing by $.30 at the end of each subsequent five year period to October 2, 2006, and thereafter at $20.

Common shares reserved at December 31, 1978—5,568,640:

5,155,065 shares for issuance upon conversion of all convertible preferred shares.

210,532 shares for issuance under the Employees' Savings Plan (1966).

203,043 shares for issuance under the Shareholder Dividend Reinvestment and Stock Purchase Plan.

11. Long term debt

Bell Canada — Thousands of dollars

First mortgage bonds	3¾–5¾%	6–7⅞%	8–9⅞%	10–10½%	Total outstanding Dec. 31, 1978
1979	$ 40,000	$ —	$ 70,000	$ —	$ 110,000
1980	30,000	—	72,000	—	102,000
1981	24,000	28,500	—	—	52,500
1982	90,000	—	—	—	90,000
1983	50,000	—	—	—	50,000
1984-1993	160,000	251,500	270,066	—	681,566
1994-2003	78,000	210,000	400,000	130,000	818,000
2004	—	—	13,000	—	13,000
	472,000	490,000	825,066	130,000	1,917,066
Debentures 1986-2008	—	100,000	810,000	—	910,000
Exchange premium less discount, at time of issue, on debt payable in U.S. funds					43,673
Unrealized foreign currency losses*					166,135
Obligations under capital leases					43,826
Sub-total – Bell Canada					3,080,700
Subsidiaries (including $107,329 due to non-consolidated subsidiaries and $18,125 of obligations under capital leases)					446,323
Unrealized foreign currency losses*					9,251
Sub-total – consolidated					3,536,274
Less: due within one year (including $27,908 due to non-consolidated subsidiaries)					155,188
Total – consolidated					**$3,381,086**

– The first mortgage bonds of Bell Canada are secured by a first mortgage and a floating charge.
– At December 31, 1978, the long term debt of Bell Canada payable in United States funds was $1,128,000,000 comprising $50,000,000 of first mortgage bonds maturing in 1983, $518,000,000 maturing from 1988 to 2004 and $560,000,000 of debentures maturing from 1986 to 2008.
– At December 31, 1978, the amounts of long term debt payable by Bell Canada and subsidiary companies in the years 1979 to 1983 are $155,188,000, $182,288,000, $157,898,000, $127,689,000 and $89,087,000, respectively.
– At December 31, 1978, the long term debt of non-consolidated finance subsidiaries of Northern Telecom Limited, due to third parties, was $101,131,000.
* Arising from the translation of U.S. dollar denominated debt at rate prevailing on December 31, 1978.

12. Debt due within one year

Dollars in thousands

	Dec. 31, 1978	Dec. 31, 1977
Long term debt	$155,188	$ 78,479
Notes payable	83,921	101,232
Bank advances	41,687	15,930
	$280,796	$195,641

Additional data with regard to Notes payable		
i) Maximum amount outstanding at any month-end during the year ended December 31	$151,719	$104,576
ii) Average amount outstanding during the year ended December 31	$ 90,951	$ 84,011
iii) Weighted average annual interest rate during the year ended December 31	7.3%	7.3%
iv) Weighted average annual interest rate at December 31	9.4%	7.2%

13. Guarantees

Included in Deferred credits—Other at December 31, 1978 is the balance of $190,587,000 of advance payment to be applied against amounts due to Bell Canada over the life of certain contract operations. A guarantee, equivalent to approximately $234 million at December 31, 1978, has been furnished in respect of such advance payment.

In addition, a performance guarantee has been furnished, in respect of such contract operations, equivalent to approximately $60 million at December 31, 1978.

14. Pensions

Bell Canada and most of its subsidiary companies have non-contributory plans which provide for service pensions based on length of service and rates of pay. The actuarial reviews as of December 31, 1977 indicated that all vested benefits were fully funded. The funding programs meet the requirements of Federal and Provincial laws.

The total provisions for the cost of pension plans were $145,452,000 for the year ended December 31, 1978 ($132,349,000 – 1977).

15. Remuneration of directors and officers

During the year 1978, Bell Canada's shareholders were served by 21 directors. As such, their aggregate remuneration from Bell Canada was $242,000. Some of them served also as directors of Northern Telecom Limited, and certain of its subsidiaries; as such their aggregate remuneration was $86,000 from these companies.

Bell Canada had 30 officers during 1978 and their aggregate remuneration as officers was $2,875,000. Two of the officers served also as directors of Bell Canada in 1978.

In addition, payments made by Bell Canada pursuant to special retirement plans for certain of its officers amounted to $170,000 for 1978.

16. Canadian anti-inflation legislation

Anti-inflation legislation controlling increases in profit margins, prices, dividends and compensation became effective in Canada on October 14, 1975 and was terminated on December 31, 1978. Bell Canada and its Canadian subsidiaries were subject to this legislation.

Based on available information, management of Bell Canada is of the opinion that, in all respects material to Bell Canada and its Canadian subsidiaries, they were in compliance with the Anti-Inflation Act and regulations.

17. Quarterly financial data

Summarized consolidated quarterly financial data (in thousands of dollars except per share amounts) are as follows:

	Three months ended			
1978	Mar. 31†	June 30†	Sept. 30†	Dec. 31
Telecommunications operations				
Total operating revenues	$598,986	$626,238	$670,246	$726,248
Net operating revenues	148,758	160,417	213,948	232,637
Manufacturing and distributing				
Sales	288,011	345,652	363,177	473,157
Gross profit	84,178	106,552	118,766	161,932
Contract and directory operations				
Revenues	24,216	80,088	82,057	96,279
Net revenues–contract and directory operations	5,282	13,599	13,229	13,277
Income before extraordinary items	68,004	81,846	104,270	116,442
Extraordinary items	1,629	17,457	1,437	3,967
Net income	69,633	99,303	105,707	120,409
Net income applicable to common shares	61,953	89,521	94,838	110,038
Earnings per common share before extraordinary items*	$1.37	$1.64	$2.10	$2.34
Assuming full conversion of convertible preferred shares	$1.35	$1.57	$1.96	$2.19
*Based on average common shares outstanding (thousands)	43,862	44,110	44,540	45,333

1977	Mar. 31†	June 30†	Sept. 30†	Dec. 31†
Telecommunications operations				
Total operating revenues	$515,423	$537,476	$585,121	$603,635
Net operating revenues	127,016	120,445	175,353	172,545
Manufacturing and distributing				
Sales	296,413	324,787	279,100	294,428
Gross profit	82,040	95,647	85,117	85,612
Contract and directory operations				
Revenues	17,953	19,208	19,695	19,925
Net revenues–contract and directory operations	3,891	4,035	3,039	3,578
Income before extraordinary item	62,083	60,907	83,591	79,627
Extraordinary item	400	420	484	1,063
Net income	62,483	61,327	84,075	80,690
Net income applicable to common shares	54,471	53,408	76,247	72,915
Earnings per common share before extraordinary item*	$1.33	$1.26	$1.73	$1.64
Assuming full conversion of convertible preferred shares	$1.25	$1.24	$1.67	$1.59
*Based on average common shares outstanding (thousands)	40,799	41,986	43,653	43,733

†See note 21.

18. Differences between Canadian and United States generally accepted accounting principles

a) Translation of foreign currencies

If the foreign currency translation had been treated in accordance with the United States Financial Accounting Standards Board's Statement No. 8: Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements, consolidated net income and earnings per common share would have increased (decreased) as follows:

	Increase (decrease) in consolidated net income	Increase (decrease) in earnings per common share
	Thousands of dollars except per share amounts	
Three months ended		
March 31, 1978	$(33,300)	$(0.76)
June 30, 1978	9,600	0.22
September 30, 1978	(55,000)	(1.23)
December 31, 1978	1,800	0.04
March 31, 1977	$(29,200)	$(0.72)
June 30, 1977	(2,700)	(0.06)
September 30, 1977	(10,700)	(0.25)
December 31, 1977	(13,400)	(0.31)
Year ended		
December 31, 1978	$(76,900)	$(1.73)
December 31, 1977	(56,000)	(1.32)

Consolidated net income as reported for the year 1978 of $395,052,000 ($288,575,000—1977) would have been $318,152,000 ($232,575,000—1977) and earnings per share as reported for the year 1978 of $8.01 ($6.04—1977) would have been $6.28 ($4.72—1977).

b) Extraordinary item

The extraordinary item of $17,474,000, as described in note 5, has been included in income whereas the practice in the United States is to treat such an increase in book value as paid-in capital. If the extraordinary item had been treated in accordance with U.S. practice, consolidated net income for the year 1978 would have decreased by an additional $17,474,000 ($0.39 per common share) to $5.89 per common share.

c) Disposal of a segment of a business

Under U.S. practice, the disposal of a segment of a business requires different reporting; however, net income and earnings per common share are identical under both Canadian and United States reporting practices.

19. Replacement cost data (unaudited)

The company has developed estimates of the replacement cost of the productive capacity represented by its plant investment. Inventories, depreciation expense and cost of sales (manufacturing and distributing) have also been estimated on the basis of replacement cost. These estimates have been prepared in compliance with rules and guidelines issued by the United States Securities and Exchange Commission.

Millions of dollars

	Dec. 31, 1978 Historic cost	Dec. 31, 1978 At estimated replacement cost	Dec. 31, 1977 Historic cost†	Dec. 31, 1977 At estimated replacement cost†
Telecommunications property				
Subject to replacement cost disclosure	$8,934	$13,609	$8,168	$12,216
Land and plant under construction, included at historic cost	283	283	268	268
	9,217	13,892	8,436	12,484
Less: Accumulated depreciation	2,614	4,930	2,371	4,314
	6,603	8,962	6,065	8,170
Manufacturing and distributing property				
Subject to replacement cost disclosure	580	1,001	360	708
Land and other property, included at historic cost	23	23	29	29
	603	1,024	389	737
Less: Accumulated depreciation	235	502	206	436
	368	522	183	301
Net plant investment	$6,971	$ 9,484	$6,248	$ 8,471
Inventories	$ 361	$ 373	$ 218	$ 225

†See note 21.

Replacement cost of productive capacity and inventories
The replacement cost data presented above is an estimate of the cost that would be incurred if the productive capacity and inventories were replaced at cost levels existing at December 31, 1978 and December 31, 1977 respectively. Land and plant under construction are not revalued but are included at historic cost.

The company recommends caution in interpreting the significance of the difference between replacement cost and historic cost for the following reasons:
i) the estimates are based on the assumed replacement of productive capacity at December 31, 1978 and December 31, 1977 respectively, using a mix of technology appropriate to business conditions existing at those dates.
Actual replacement will take place over many years, using a mix of technology appropriate to business conditions existing at those future dates.
ii) The establishment of the estimates involves numerous assumptions and therefore the result must be recognized as only an indication of the replacement cost of productive capacity.

Depreciation expense and cost of sales (manufacturing and distributing)
The company has estimated the depreciation charge which would be required if the average depreciable plant for the year were valued at its replacement cost, and the cost of sales (manufacturing and distributing) on the basis of replacement cost. These estimates are presented below.

Bell Canada stresses that it would be incorrect to assume that net income as reported in the historic cost financial statements can be adjusted by the additional depreciation expense of $221 million ($191—1977) to produce a more meaningful measure of income. The major portion of the increase in cost of sales (manufacturing and distributing) is due to the increase in depreciation expense. In addition to these adjustments, the following factors would have to be considered:

19. Replacement cost data (unaudited) (continued)

i) The estimates do not cover all assets, liabilities, revenues and expenses and therefore the estimates are incomplete. The effects of these additional elements would have to be included in the measurement of income.

ii) The estimates of replacement cost assume a mix of plant and technology which is different from the plant in place. If the assumed plant and technology were in place, operating and maintenance cost savings would be realized and additional revenues would probably be generated since the newer plant has greater service capabilities. In the opinion of management, such cost savings and additional revenues would be significant in total. It is, however, not possible at this time to estimate them with reasonable accuracy.

These factors together with others such as the cost of additional financing, if necessary, and income tax considerations, make it misleading to recalculate net income.

				Millions of dollars
		1978		1977
	Historic cost	At estimated replacement cost	Historic cost†	At estimated replacement cost†
Depreciation expense				
Telecommunications property	$498	$ 706	$449	$628
Manufacturing and distributing property	52	65	31	43
	$550	$ 771	$480	$671
Cost of sales manufacturing and distributing	$999	$1,009	$846	$863

†See note 21.

Replacement cost estimation procedures
In the case of telecommunications property where there have been significant technological improvements, the company assumed that productive capacity would be replaced with the most modern technology that could be justified in terms of the foreseen demand for the services. For this reason, latest technology was not assumed to replace all existing capacity.

The specific method used to develop replacement cost data was tailored to the characteristics of the assets being evaluated, as follows:
Central office equipment—current acquisition cost of equipment used to meet currently foreseen demand. The equipment replacement pattern that was assumed provides for slightly more than half of Bell Canada's subscribers to be served by the most technically advanced electronic switching systems, as opposed to slightly more than 16% (14%—1977) that are currently served in this manner.
Outside plant—current construction cost per conductor kilometre.
Station equipment—current acquisition cost per unit.
Buildings—current construction cost per square metre of space.
Tools and vehicles—current acquisition cost per unit.
In the case of manufacturing and distributing property, replacement costs were estimated by using current acquisition costs or indices specifically developed for several major categories. Present business conditions, current technology and the company's normal approach to replacement of capacity were assumed.
Replacement cost of inventories was estimated to reflect current cost of material, labour and expense.
Both the historic and the replacement cost data include assets held under capital leases as defined in note 1 of Notes to Financial Statements.
Depreciation expense was estimated based on the average replacement cost for the year of the depreciable assets. The depreciation charge was calculated on a straight line basis, using the same useful lives for the assets as is used in the historic cost financial statements. Cost of sales (manufacturing and distributing) was estimated on the basis of replacement cost by adjusting historic cost for the increase in costs between the time of manufacture and the time of sale.

20. Industry segments

Bell Canada and its subsidiary and associated companies operate principally in two business segments:

1) Telecommunications operations, which include the provision of voice, visual, data, radio and television transmission, public exchange and private line teletypewriter and other telecommunications services.
2) Telecommunications equipment manufacturing, which involves the production and sale of central office switching equipment, subscriber apparatus, business communications systems, transmission equipment and wire and cable.

Millions of dollars

Segments	Telecommunications operations	Telecommunications equipment manufacturing	Other	Eliminations	Consolidated
1978					
Revenues and sales	$2,580(a)	$1,131(b)	$663(b)	$ —	$4,374
Intersegment sales	42	27	114	(183)	—
Total revenues	2,622	1,158	777	(183)	$4,374
Total net revenues	756	180	84(a)	—	$1,020(c)
Equity in net income of associated companies and non-consolidated subsidiaries	13	1	3	—	17
Other income					32
Interest charges					(264)
General corporate expenses					(74)
Income before income taxes, minority interest and extraordinary items					$ 731(e)
Identifiable assets at December 31	7,028	718	872	(89)	$8,529(d)
Investment in net assets of associated companies and non-consolidated subsidiaries	110	3	38	—	151
General corporate assets					525(d)
Total assets at December 31					$9,205
Depreciation	497	25	25	—	$ 547
Depreciation general corporate assets					3
					$ 550
Capital expenditures	1,054	54	65	—	$1,173
Capital expenditures general corporate assets					11
					$1,184

20. Industry segments (continued)

Millions of dollars

Segments	Telecommunications operations†	Telecommunications equipment manufacturing†	Other†	Eliminations	Consolidated†
1977					
Revenues and sales	$2,205	$1,017(b)	$291(b)	$ —	$3,513
Intersegment sales	37	27	86	(150)	—
Total revenues	2,242	1,044	377	(150)	$3,513
Total net revenues	595	185	23	(1)	$ 802(c)
Equity in net income of associated companies and non-consolidated subsidiary	11	1	2	—	14
Other income					27
Interest charges					(222)
Unrealized foreign currency gains					6
General corporate expenses					(71)
Income before income taxes, minority interest and extraordinary item					$ 556(e)
Identifiable assets at December 31	6,393	511	153	(74)	$6,983(d)
Investment in net assets of associated companies and non-consolidated subsidiary	105	2	39	—	146
General corporate assets					214(d)
Total assets at December 31					$7,343
Depreciation	449	24	5	—	$ 478
Depreciation general corporate assets					2
					$ 480
Capital expenditures	1,003	36	10	(4)	$1,045
Capital expenditures general corporate assets					1
					$1,046

†Certain previously reported data have been restated as described in notes 1 and 2. The effect of the reclassification of certain figures to conform with current presentation and the restatements were to decrease 1977 Telecommunications operations, Telecommunications equipment manufacturing and consolidated Revenues and sales by $114 million, $47 million and $47 million, respectively, and to increase Other revenues and sales by $114 million. Total net revenues were similarly affected by decreases of $15 million, $17 million and $17 million, respectively, and an increase of $15 million.

20. Industry segments (continued)

					Millions of dollars
Geographic areas	Canada	U.S.A.	Other	Eliminations	Consolidated
1978					
Revenues and sales	$3,670	$469	$235	$ –	$4,374
Transfers between areas	86	20	1	(107)	—
Total revenues	3,756	489	236	(107)	$4,374
Net revenues before research and development expenses	1,047	96	28	—	$1,171
Research and development expenses					151
Total net revenues					$1,020(c)
Equity in net income of associated companies and non-consolidated subsidiaries	13	3	1	—	$ 17
Other income					32
Interest charges					(264)
General corporate expenses					(74)
Income before income taxes, minority interest and extraordinary items					$ 731(e)
Identifiable assets at December 31	7,538	628	401	(38)	$8,529(d)
Investment in net assets of associated companies and non-consolidated subsidiaries	110	38	3	—	151
General corporate assets					525(d)
Total assets at December 31					$9,205

a) Telecommunications operations segment revenues include $13 million ($Nil-1977) consisting principally of contract service agreement and contribution to overhead, which are also included as operating expenses in Other net revenues. These items are not eliminated on consolidation.
b) Telecommunications equipment manufacturing and Other sales revenues include sales of $583 million and $4 million ($581 and $4—1977), respectively to Bell Canada, its telephone subsidiary and associated companies. These sales are not eliminated on consolidation (see note 1—Consolidation). Telecommunications equipment manufacturing sales of Northern Telecom Limited to Bell Canada are at prices and terms as low as those offered to Northern Telecom Limited's most favored customers for like materials and services under comparable conditions.
c) Total net revenues of $946 million ($731—1977) as shown in the Consolidated Income Statement are after deducting expenses of $74 million ($71—1977) applicable to Telecommunications equipment manufacturing and Other segments which are shown as general corporate expenses.
d) Identifiable assets by industry segment are those assets that are used in each segment's operation. General corporate assets are principally cash, temporary cash investments and deferred unrealized foreign currency losses.
e) Income before income taxes, minority interest and extraordinary items includes continuing and discontinued operations (See note 6).

21. Restatements and reclassification

Certain previously reported data have been restated to reflect the equity method of accounting for a subsidiary as described in note 1 and the change in the method of accounting for the translation of foreign currencies as described in note 2.
In addition, certain figures have been reclassified to conform with current presentation.

22. Subsequent event

On February 12, 1979, Bell Canada entered into an agreement for the sale to underwriters in Canada of 3,125,000 of its common shares for the sum of $190,375,000, after deducting underwriting commission.

Summarized Income Statement
Non-Consolidated (Note 1)

For the years ended December 31

		Thousands of dollars 1978	1977
Telecommunications operations	Operating revenues		
	Local service	$1,263,096	$1,107,640
	Long distance service	1,152,507	970,453
	Miscellaneous – net	81,827	55,322
	Total operating revenues	2,497,430	2,133,415
	Operating expenses	1,784,497	1,572,495
	Net operating revenues	712,933	560,920
	Other income		
	Dividends		
	subsidiary companies	21,357	19,637
	associated companies	7,559	7,362
	Interest charged to construction	13,530	15,683
	Miscellaneous – net	14,342	10,279
	Total other income	56,788	52,961
	Income before underlisted items	769,721	613,881
	Interest charges	231,020	202,393
	Unrealized foreign currency losses	5,487	—
	Income before income taxes	533,214	411,488
	Income taxes	240,118	178,593
	Income – telecommunications operations	293,096	232,895
Contract operations	Revenues	185,653	—
	Operating expenses	165,843	—
	Net contract revenues	19,810	—
	Miscellaneous – net	(2,761)	—
	Income before income taxes	17,049	—
	Income taxes	9,328	—
	Income – contract operations	7,721	—
	Income before extraordinary item	300,817	232,895
	Extraordinary item†	4,122	—
	Net income	**304,939**	**232,895**
	Dividends on preferred shares	38,702	31,534
	Net income applicable to common shares	**$ 266,237**	**$ 201,361**
	Earnings per common share*		
	before extraordinary item	$5.89	$4.73
	extraordinary item	$0.10	—
	after extraordinary item	$5.99	$4.73
	Assuming full conversion of convertible preferred shares		
	before extraordinary item	$5.72	$4.68
	extraordinary item	$0.08	—
	after extraordinary item	$5.80	$4.68
	Dividends declared per common share	$4.29	$4.08
	*Based on average common shares outstanding (thousands)	44,465	42,554

†Gain (net of income taxes of $565,000) arising from the sale, upon exercise of warrants, of common shares of Northern Telecom Limited.

Summarized Balance Sheet
Non-Consolidated (Note 1)

As at December 31

		Thousands of dollars	
Assets		1978	1977†
Telecommunications property – at cost	Buildings, plant and equipment	$8,415,085	$7,691,786
	Less: Accumulated depreciation	2,496,256	2,266,382
		5,918,829	5,425,404
	Land and plant under construction	270,179	254,875
	Material and supplies	101,919	97,190
		6,290,927	5,777,469
Investments – at cost	Subsidiary companies	212,709	212,431
	Associated companies	107,971	107,971
		320,680	320,402
Current assets		693,769	287,910
Other assets	Cash and temporary cash investments held for contract operations – at cost (approximates market)	91,851	—
	Deferred charges		
	contract operations	112,912	—
	unrealized foreign currency losses, less amortization	160,648	62,526
	other	42,451	37,623
		407,862	100,149
	Total assets	**$7,713,238**	**$6,485,930**
Liabilities and Shareholders' Equity			
Shareholders' equity	Capital stock		
	Preferred shares	$ 404,730	$ 356,492
	Common shares	1,176,622	1,094,008
	Premium on capital stock	607,388	527,143
	Retained earnings	751,554	682,748
		2,940,294	2,660,391
Long term debt	Includes the addition of unrealized foreign currency losses of $166,135 ($62,526 — 1977)	2,968,425	2,559,685
Current liabilities		686,903	485,190
Deferred credits	Income taxes	827,860	758,969
	Other	289,756	21,695
		1,117,616	780,664
	Total liabilities and shareholders' equity	**$7,713,238**	**$6,485,930**

†Restated to reflect change in the method of accounting for translation of foreign currencies.

Summarized Statement of Changes in Financial Position Non-Consolidated (Note 1)

For the years ended December 31

		Thousands of dollars 1978	1977
Source of funds	Operations		
	Income before extraordinary item	$ 300,817	$ 232,895
	Items not affecting current funds		
	Depreciation	473,993	427,853
	Deferred income taxes	68,891	102,765
	Interest charged to construction	(13,530)	(15,683)
	Other – net	15,800	7,255
	Total from operations	845,971	755,085
	Net proceeds from the sale by Bell Canada of common shares of a subsidiary	4,778	—
	Proceeds from long term debt	415,409	255,204
	Proceeds from issue of Bell Canada common shares		
	upon exercise of warrants	—	118,607
	under the dividend reinvestment and stock purchase plan	30,134	—
	Proceeds from issue of Bell Canada preferred shares	170,903	—
	Advance payment on contract operations	190,587	—
	Issue of common shares upon conversion of convertible preferred shares	125,820	18,952
	Miscellaneous	95,107	17,356
	Decrease in working capital	—	88,312
		$1,878,709	$1,253,516
Disposition of funds	Capital expenditures		
	Gross capital expenditures	$1,003,672	$ 951,079
	Deduct: charges not requiring funds	(22,709)	(14,703)
	Increase (decrease) in material and supplies	4,729	(3,234)
	Net expenditures	985,692	933,142
	Dividends	231,815	207,160
	Reduction of long term debt	114,992	76,604
	Acquisition of investments	4,024	3,545
	Conversion of preferred shares	125,848	18,975
	Cash and temporary cash investments held for contract operations	91,851	—
	Deferred charges – contract operations	112,912	—
	Miscellaneous	7,429	14,090
	Increase in working capital	204,146	—
		$1,878,709	$1,253,516

Consolidated Summary of Operations

Millions of dollars except per share amounts

	1978	1977†	1976†	1975†	1974†
Telecommunications operations					
Operating revenues	$2,621.7	$2,241.7	$1,995.5	$1,741.0	$1,502.9
Operating expenses	1,866.0	1,646.3	1,430.7	1,225.1	1,049.4
Net operating revenues	755.7	595.4	564.8	515.9	453.5
Manufacturing and distributing sales	1,470.0	1,194.7	1,073.4	999.2	959.2
Cost of sales	998.5	846.3	771.7	725.4	711.8
Selling, general, administrative and other expenses	326.8	227.4	184.1	151.1	141.8
Net sales revenues	144.7	121.0	117.6	122.7	105.6
Contract and directory operations					
Revenues	282.6	76.7	61.2	50.0	46.5
Operating expenses	237.2	62.2	48.7	39.4	38.4
Net revenues—contract and directory operations	45.4	14.5	12.5	10.6	8.1
Total net revenues	945.8	730.9	694.9	649.2	567.2
Other income	49.1	40.9	59.4	38.3	29.7
Interest charges	263.4	221.8	196.3	179.9	148.0
Income before underlisted items	731.5	550.0	558.0	507.6	448.9
Unrealized foreign currency losses (gains)	0.3	(6.0)	(1.8)	0.6	0.4
Income taxes	323.6	242.1	247.5	229.1	223.0
Minority interest	37.0	27.7	24.9	11.5	1.4
Income before extraordinary items	370.6	286.2	287.4	266.4	224.1
Extraordinary items	24.5(a)	2.3(b)	2.2(b)	50.6(c)	—
Net income	395.1	288.5	289.6	317.0	224.1
Dividend on preferred shares	38.7	31.5	28.9	24.8	17.6
Net income applicable to common shares	$ 356.4	$ 257.0	$ 260.7	$ 292.2	$ 206.5
Earnings per common share *					
before extraordinary items	$7.46	$5.98	$6.45	$6.19	$5.56
extraordinary items	$0.55	$0.06	$0.05	$1.30	—
after extraordinary items	$8.01	$6.04	$6.50	$7.49	$5.56
Assuming full conversion of convertible preferred shares and for 1976 and 1975 exercise of warrants					
before extraordinary items	$7.09	$5.80	$5.97	$5.87	$5.34
extraordinary items	$0.48	$0.05	$0.04	$1.12	—
after extraordinary items	$7.57	$5.85	$6.01	$6.99	$5.34
Dividends declared per common share	$4.29	$4.08	$3.58	$3.44	$3.12
*Based on average common shares outstanding (thousands)	44,465	42,554	40,106	38,998	37,128

The effect on sales, consolidated net income and earnings per common share resulting from i) the discontinuation as of December 31, 1978 of the electrical and electronic products distribution business of Northern Telecom Limited and, ii) the discontinuation in 1975 of the semiconductor business of a subsidiary of Northern Telecom Limited, is as follows:

	1978	1977†	1976†	1975†	1974†
Manufacturing and distributing—sales					
Continuing operations	$1,331.4	$1,047.1	$ 915.5	$ 835.0	$ 773.9
Discontinued operations	138.6	147.6	157.9	164.2	185.3
	$1,470.0	$1,194.7	$1,073.4	$ 999.2	$ 959.2
Consolidated income					
Continuing operations	$ 369.8	$ 284.9	$ 284.9	$ 263.9	$ 226.9
Discontinued operations	(1.1)	1.3	2.5	0.1	(2.8)
Extraordinary items	26.4	2.3	2.2	53.0	—
Net income	$ 395.1	$ 288.5	$ 289.6	$ 317.0	$ 224.1
Earnings per common share (d)					
Continuing operations	$ 7.07	$ 5.77	$ 5.92	$ 5.81	$ 5.41
Discontinued operations	$ (0.02)	$ 0.03	$ 0.05	—	$ (0.07)
Extraordinary items	$ 0.52	$ 0.05	$ 0.04	$ 1.18	—
	$ 7.57	$ 5.85	$ 6.01	$ 6.99	$ 5.34

(a) See note 5 of Notes to Financial Statements.
(b) Utilization of prior years' tax losses of subsidiaries.
(c) Consolidated gain of $53,007,000 from the sale by Bell Canada of common shares of Northern Telecom Limited less provision of $2,429,000 for the costs of terminating the semiconductor business of a subsidiary of Northern Telecom Limited.
(d) Assuming full conversion of convertible preferred shares and for 1976 and 1975 exercise of warrants.
†See note 21 of Notes to Financial Statements.

Management's Discussion and Analysis of Consolidated Summary of Operations

Telecommunications Operations

Operating revenues
Operating revenues rose $380 million or 17% in 1978 over 1977 and $246.2 million or 12.3% in 1977 over 1976. This reflects increased demand for telecommunications services and the impact of rate increases awarded to Bell Canada effective June 13, 1977 and August 15, 1978. The impact of the June 1977 rate award is estimated at $85 million in the year 1977 and an additional $77 million in 1978. The impact of the August 1978 rate award on 1978 is estimated to have been $89 million.

The number of long distance messages increased 9.4% to 643 million in 1978 from 588 million in 1977 and increased 5.8% in 1977 from 556 million in 1976. At December 31, 1978 the number of telephones in service was approximately 9.3 million, an increase of 3.9% from December 31, 1977. The increase at December 31, 1977 over the previous year was 3.7%.

The increase in miscellaneous revenues of $27.3 million in 1978 primarily reflects the recovery of certain direct and indirect contract costs and increased service agreement revenues principally from contract activities. For 1977, approximately half of the $10.1 million increase was due to higher directory advertising commissions, the remainder being increased other operating revenues.

Operating expenses
Operating expenses increased $219.7 million or 13.3% in 1978 and $215.6 million or 15.1% in 1977. Slightly less than half of these increases was due to employee-related expenses (salaries, pension and other benefits), the remainder being depreciation and other expenses. Employee-related expenses have increased mostly as a result of higher wage rates and to a lesser extent, growth in the business. Depreciation increased $48.4 million (1978 over 1977) and $45 million (1977 over 1976) as a result of increased depreciable plant in service.

Maintenance expense increased to $442.4 million in 1978 from $392.1 million in 1977 and $326.4 million in 1976 mainly as a result of higher wages coupled with increased work volumes.

Manufacturing and Distributing

Net sales revenues
Sales revenues increased $275.3 million or 23% in 1978. Of this increase, $228.1 million (of which $190.2 million were sales originating in the U.S.) was due to the consolidation of Sycor, Inc., Data 100 Corporation, Danray, Inc. and Spectron Corporation, all acquired in 1978. In addition to the contribution from acquisitions, other U.S. sales increased $63.4 million reflecting primarily the marketing efforts in the interconnect market for the SL-1 * business communications system. Canadian sales were slightly below those of last year, reflecting the slow growth of the Canadian economy. Electrical and electronic products distribution sales continued to decline, reflecting the low level of activity in the Canadian construction industry. This part of the business was discontinued as of December 31, 1978. The 1977 gain in sales revenues of $121.3 million or 11.3% was mainly attributable to higher U.S. sales ($80.5 million) of which some $38.5 million represented the contribution of Cook Electric Company, acquired in December of 1976, and higher volume, principally SL-1 * business communications systems. The remainder was attributable to increased Canadian sales of $31.4 million and higher sales outside North America of $9.4 million.

In 1978, cost of sales increased $152.2 million or 18% and, in 1977, the increase was $74.6 million or 9.7%. This resulted mainly from higher sales and the inflationary pressures on material, labour and overhead. However, in both years, gross profit as a percentage of sales improved as a result of productivity improvement and cost reduction programs and acquisitions, particularly for 1978, as the acquired companies operate with higher gross profit margins than those of Northern Telecom's other operations.

Selling, general and administrative expenses (excluding other expenses) rose $69.7 million in 1978 and $36.9 million in 1977. This includes $48.5 million in 1978 and $7.7 million in 1977 from acquired companies. In addition, continuing build-up of marketing and administrative forces, to generate and support future sales

*Denotes Trademark

Manufacturing and Distributing (continued)

growth in the United States and offshore, was a contributing factor to these increases as was the impact of inflation on compensation and benefit costs.

Other expenses, mainly research and development expenses related to manufacturing operations, were $97.8 million in 1978 as compared to $68.2 million in 1977 and $61.7 million in 1976. The increases, particularly for 1978, reflect Northern Telecom's continuing commitment to further develop digital and semiconductor technologies, and the contribution in 1978 of $13.8 million from acquired companies.

Contract and Directory Operations

Net revenues
Contract operations represent the commercial consulting services provided under contracts to clients, principally foreign telecommunications organizations, while directory operations represent the handling of all aspects of the production of white and yellow page telephone directories, as well as the sale of advertising therein. Approximately two-thirds of the $30.9 million increase in net revenues—contract and directory operations for 1978 resulted from increased contract activities, principally the Saudi Arabian contract, and increased directory activities, reflecting the inclusion of a company acquired in early 1978.

Other income
Other income increased $8.2 million in 1978 as compared to 1977. This reflects the decrease in miscellaneous income charges for 1978 and higher interest income resulting mainly from increased temporary cash investments. In 1977, other income decreased by some $18.5 million from 1976 as a result of lower interest income mainly from a decrease in temporary cash investments and also, as a result of increased miscellaneous income charges.

Interest charges
Interest charges increased $41.6 million in 1978 and $25.5 million in 1977. Most of the 1977 and a major portion of the 1978 increase is attributable to interest expense on additional debt issued to finance part of Bell Canada's capital expenditures and, to a lesser extent, higher rates of exchange on interest payable in U.S. funds. Most of the balance of the 1978 increase (approximately $10 million) reflects the inclusion of interest charges of recently acquired subsidiaries of Northern Telecom and increased borrowings by subsidiaries.

Unrealized foreign currency losses or gains
In 1978, a loss of $0.3 million was recorded due to the amortization of $7.2 million (nil in 1977) of unrealized foreign currency losses on long term debt, as a result of the adoption in the fourth quarter of 1978 of the recommendations of the Canadian Institute of Chartered Accountants, offset by gains of $6.9 million ($6 million in 1977) on the translation of foreign currency financial statements and net assets denominated in foreign currencies (see note 1 of Notes to Financial Statements).

Income taxes
Income taxes increased $81.5 million or 33.7% in 1978 as compared to 1977. This increase is principally due to increased earnings.

Minority interest
Minority interest increased $9.3 million in 1978. This primarily reflects increased earnings of Northern Telecom and a decrease in Bell Canada's percentage ownership in that subsidiary, resulting principally from the issuance of common shares by Northern Telecom upon the acquisition of Sycor, Inc., in the second quarter of 1978.

Extraordinary items
Extraordinary items increased $22.2 million in 1978 mainly as a result of an increase of $17.5 million in book value of Bell Canada's investment in subsidiaries, resulting principally from the issuance by Northern Telecom of its common shares upon the acquisition of Sycor, Inc. Also contributing to the increase, but to a lesser extent, was the reduction of income taxes arising from the utilization of prior years' tax losses of subsidiaries (see note 5 of Notes to Financial Statements).

Price Ranges and Dividends Paid
Common and Preferred Shares

Price Ranges (a)		1st quarter		2nd quarter		3rd quarter		4th quarter	
		High	Low	High	Low	High	Low	High	Low
1978	Common (b)	$55⅜	$52	$58¾	$53½	$62¼	$56⅛	$65⅝	$58⅞
	$3.20 Preferred	$54	$52⅜	$58⅜	$53¾	$60⅜	$56½	$64	$59
	$3.34 Preferred	$55¼	$53	$58½	$54½	$62¼	$56⅝	$65⅜	$60¼
	$4.23 Preferred	$55½	$53¼	$58¾	$54¼	$62	$56½	$64½	$59½
	$2.28 Preferred	$30	$28⅝	$31	$28¾	$32¼	$30⅛	$33	$30⅝
	$2.25 Preferred	$30⅛	$29	$30¾	$28½	$31½	$30½	$31	$30
	$1.80 Preferred	$23	$21⅞	$23⅞	$22	$24⅝	$23⅜	$24¼	$23
	$1.96 Preferred	—	—	$27	$25⅝	$27¾	$26	$28¼	$25¾
1977	Common	$49⅜	$46⅜	$53⅛	$48⅜	$56	$52⅝	$56⅝	$52⅝
	$3.20 Preferred	$49	$47½	$52⅜	$48⅞	$55¼	$53	$56⅛	$52⅞
	$3.34 Preferred	$49⅝	$47	$53	$48¾	$56½	$53⅛	$56¼	$53
	$4.23 Preferred	$50⅞	$48½	$54⅝	$49¾	$57	$53½	$56½	$53¾
	$2.28 Preferred	$27⅜	$26	$29	$26½	$29⅞	$28⅛	$30¼	$29⅛
	$2.25 Preferred	$26¾	$25¼	$29⅜	$26¾	$30½	$28⅝	$30½	$29½
	$1.80 Preferred	$21¼	$20⅛	$23	$20⅝	$23⅝	$22½	$23¾	$22⅜

Dividends Paid		1st quarter	2nd quarter	3rd quarter	4th quarter
Common Shares	1978	$1.02	$1.05	$1.05	$1.05
	1977	$0.93	$1.02	$1.02	$1.02
Preferred Shares	The indicated rates are annual rates and dividends have been paid quarterly since dates of issue.				

(a) The table shows market prices on the Toronto Stock Exchange. The common and preferred shares are also listed on the Montréal and Vancouver Stock Exchanges in Canada. The common shares are also listed on the Stock Exchanges of Amsterdam, Basle, Brussels, Dusseldorf, Frankfurt am Main, Geneva, London, New York, Paris and Zurich.

(b) Bell Canada common shares have been listed on the New York Stock Exchange since August 18, 1976. High and low prices (U.S. dollars) were $55⅝ and $47⅛ respectively, during the year ended December 31, 1978.

Statistical Summary

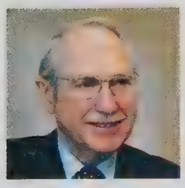
Consolidated		1978	1977	1976	1975	1974
Balance Sheet items (millions of dollars)	Total property – net*†	$6,971.0	$6,248.4	$5,688.0	$5,116.7	$4,625.6
	Preferred equity*	404.7	356.5	377.0	343.2	332.0
	Common equity*	2,840.4	2,519.0	2,296.4	2,141.3	1,869.4
	Minority interest*†	296.7	184.8	154.1	123.7	39.5
	Long term debt* (including current portion)	3,536.3	2,821.3†	2,567.3	2,371.6	2,227.1
	Capital expenditures†	1,184.0	1,045.7	992.7	901.1	881.6
Common share data	Equity per common share*	$60.35	$57.56	$56.53	$53.85	$50.07
	Percent of common shares held in Canada*	94.3	93.9	96.7	97.9	96.0
	Number of shareholders* (including preferred)	228,285	221,224	225,457	231,689	230,630

Non-Consolidated						
Income Statement items (millions of dollars)						
Telecommunications operations	Operating revenues	$2,497.4	$2,133.4	$1,903.9	$1,665.8	$1,440.1
	Operating expenses	1,784.5	1,572.5	1,367.6	1,171.6	1,007.3
	Other income	56.8	53.0	65.2	53.3	44.6
	Interest charges	231.0	202.4	177.3	160.9	131.6
	Unrealized foreign currency losses	5.5	—	—	—	—
	Income taxes	240.1	178.6	185.7	173.9	160.8
	Income – telecommunications operations	293.1	232.9	238.5	212.7	185.0
Contract operations	Revenues	185.6	—	—	—	—
	Operating expenses	165.8	—	—	—	—
	Miscellaneous – net	(2.8)	—	—	—	—
	Income taxes	9.3	—	—	—	—
	Income – contract operations	7.7	—	—	—	—
	Income before extraordinary items	300.8	232.9	238.5	212.7	185.0
	Extraordinary items	4.1	—	—	92.6	—
	Net income	304.9	232.9	238.5	305.3	185.0
Financial ratios	Percent return on total capital	9.3	8.4	8.7	8.5	8.0
	Percent return on common equity	11.1	9.0	10.1	10.0	9.6
	Interest in percent of total average debt	7.9	7.8	7.5	7.3	6.8
	Times interest charges earned	3.4	3.0	3.4	3.4	3.6
Balance Sheet items (millions of dollars except per common share amounts)	Telecommunications property – net*	$6,291.0	$5,777.5	$5,258.1	$4,732.2	$4,280.4
	Investments*	320.7	320.4	323.5	323.0	343.8
	Preferred equity*	404.7	356.5	377.0	343.2	332.0
	Common equity*	2,535.6	2,303.9	2,134.6	2,029.4	1,768.3
	Long term debt* (including current portion)	3,080.7	2,632.6†	2,407.1	2,215.1	2,034.1
	Equity per common share*	53.87	52.65	52.55	51.04	47.36
	Capital expenditures	1,003.7	951.1	901.3	815.7	794.1
Other statistics	Telephones in service* (thousands)	8,945.4	8,620.2	8,301.4	7,888.6	7,518.5
	Local conversations (millions)	11,717.1	11,522.4	11,064.3	10,560.1	10,390.4
	Long distance messages (millions)	610.5	557.2	527.9	490.6	448.4
	Number of employees*	53,328	50,350	48,133	44,904	46,484
	Salary and wage payments (millions of dollars)	$ 868.1	$ 756.3	$ 646.4	$ 561.2	$ 487.1

*At December 31.
†See note 21 of Notes to Financial Statements.

Board of Directors

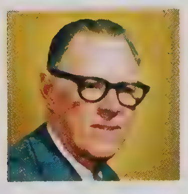
Marcel Bélanger, O.C., C.A.
Québec, Québec
Partner, Bélanger, Dallaire,
Gagnon & Associés
Member since March 1969



G. Allan Burton, D.S.O., E.D.
Milton, Ontario
Chairman of the Board and
Chief Executive Officer,
Simpsons, Limited
Member since May 1974

A. Jean de Grandpré, Q.C.
Outremont, Québec
Chairman of the Board and
Chief Executive Officer,
Bell Canada
Member since July 1972

J. Douglas Gibson, O.B.E.
Toronto, Ontario
Chairman, President and
Chief Executive Officer,
The Consumers' Gas
Company
Member since March 1970

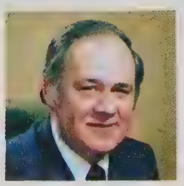


H. Clifford Hatch
Windsor, Ontario
Chairman of the Board and
Chief Executive Officer,
Hiram Walker-Gooderham
& Worts Limited
Member since April 1974

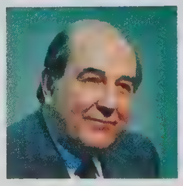
James W. Kerr
Toronto, Ontario
Chairman and
Chief Executive Officer,
TransCanada PipeLines
Limited
Member since August 1970

Paul H. Leman, O.C.
Outremont, Québec
Vice-Chairman of the Board,
Alcan Aluminium Limited
Member since April 1976

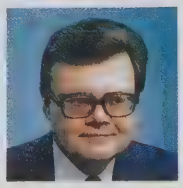
Helen L. Margison
Toronto, Ontario
President,
Shed Investments Ltd.
Member since April 1978



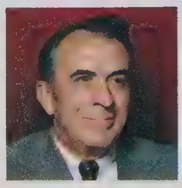
E. Neil McKelvey, Q.C.
Saint John, New Brunswick
Partner, McKelvey, Macaulay,
Machum
Member since April 1973



John H. Moore
London, Ontario
Chairman of the Board,
Brascan Limited
Member since March 1966



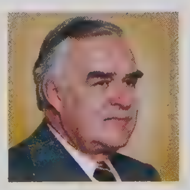
J. Dean Muncaster
Toronto, Ontario
President,
Canadian Tire Corporation,
Limited
Member since April 1977



Gérard Plourde
Montréal, Québec
Chairman of the Board and
Chief Executive Officer,
U A P Inc.
Member since January 1973

Louis Rasminsky, C.C., C.B.E.
Ottawa, Ontario
Company Director
Member since September 1973

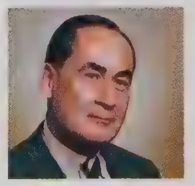
Robert J. Richardson, Sc.D.
Greenville, Delaware, U.S.A.
Vice-President-Finance,
E. I. du Pont de Nemours
& Co. Inc.
Member since January 1978



John P. Robarts, P.C., C.C., Q.C.
Toronto, Ontario
Member of Stikeman, Elliott,
Robarts & Bowman
Member since June 1971

H. Rocke Robertson, C.C., M.D.
Mountain, Ontario
Company Director
Member since July 1965

Lucien G. Rolland
Westmount, Québec
President and
Chief Executive Officer,
Rolland Paper Company,
Limited
Member since July 1965



Robert C. Scrivener
Montréal, Québec
Chairman of the Board and
Chief Executive Officer,
Northern Telecom Limited
Member since November 1967

James C. Thackray
Westmount, Québec
President, Bell Canada
Member since April 1976

Louise Brais Vaillancourt
Outremont, Québec
Company Director
Member since January 1975

Helen S. Hogg, C.C.
Richmond Hill, Ontario
Professor Emeritus,
University of Toronto
Member since March 1968
Retired April 1978

The Twenty at the Top

At Bell Canada a key role is played by the men and women who serve as members of the board of directors. They represent the largest body of owners of any corporation in Canada, numbering some 225,000 of whom the majority are small shareholders, 60 percent of them with no more than 100 shares each. At least one shareholder in every ten is an employee.

The rapidity of change in telecommunications technology and in the economic, social and political environment in which the industry operates exacts the most advanced management skills obtainable. It is the ultimate responsibility of the board to see that they are obtained and that an orderly succession of senior officers is assured. It is also the board's business not only to watch over and approve, but to participate actively in the delineation of short and long-term policies.

The board authorizes capital and operating budgets, financial statements, contracts, legal documents. Not least of all, it is responsible for declaring dividends to shareholders.

Two qualities distinguish a Bell director: "loyalty" and "care". The first commits him or her to putting the best interests of the corporation over any consideration of personal gain, and commands avoidance of real or perceived conflict of interest. "Care" is all that is implied in the exercise of discretion, practical wisdom, informed judgment and any special expertise.

The 20 directors, elected by the shareholders at the annual meeting, meet at least once a month and sometimes more often if the occasion requires. They choose from their ranks a chairman, a president and an executive committee which includes the chairman, president and at least three other directors, and it also meets every month.

The work of the directors is far from over at the end of their monthly meetings. The variety of subjects coming under their scrutiny is nearly as wide as the subjects that vie for attention in society and industry generally. These could not be handled adequately if the board did not divide the load among internal committees.

The Social and Environmental Affairs Committee is composed of four directors plus the chairman and the president.

Since it was set up six years ago it has dealt with scores of issues and situations relevant to the company's operations and its relationships with people, including such matters as equal employment opportunities, customer-oriented service measurement plans, services to the handicapped and protection of privacy in communications.

The board relies on the Audit Committee for advice on the adequacy, accuracy and timeliness of Bell's financial reports and the efficacy of its internal accounting and auditing policies and control procedures. This committee meets separately with the shareholders' auditors and with management to ensure that the resources of the Accounting Department are used efficiently and that recommendations of the shareholders' auditors are given prompt attention.

They review the company's financial statements prior to board approval, and also concern themselves with compliance with the company's code of ethical business conduct, and the activities of subsidiary companies' audit committees.

The board has long had a Pension Fund Policy Committee, which advises on all aspects of the funding of the company's pension liabilities and the investment of the assets of the pension fund.

The Management Resources and Compensation Committee, among other activities, reviews qualifications of persons proposed for board membership, makes annual reviews of the performance of the chief executive officer and the president and reviews, with those two, the performance assessments of all officers reporting to them. This committee recommends for board approval the remuneration awarded to each company officer.

Bell Canada looks for representation on its board from those who use its services, and from the geographical areas in which those services are concentrated. But it also invites men and women of distinction in fields beyond the immediacy of communications. It thus brings to the board's deliberations a breadth of perception and objectivity essential to the company's global involvement.

Committees of the Board of Directors*

Executive Committee
A. J. de Grandpré–Chairman
P. H. Leman
J. H. Moore
G. Plourde
L. Rasminsky
H. R. Robertson
R. C. Scrivener
J. C. Thackray

Audit Committee
M. Bélanger–Chairman
H. C. Hatch
P. H. Leman
E. N. McKelvey
J. H. Moore
L. B. Vaillancourt

Management Resources and Compensation Committee
J. W. Kerr–Chairman
M. Bélanger
G. A. Burton
J. D. Gibson
H. C. Hatch

Pension Fund Policy Committee
J. D. Muncaster–Chairman
J. D. Gibson
E. N. McKelvey
L. Rasminsky
R. J. Richardson
J. P. Robarts
L. G. Rolland

Social and Environmental Affairs Committee
L. B. Vaillancourt–Chairman
A. J. de Grandpré
H. L. Margison
J. P. Robarts
H. R. Robertson
J. C. Thackray

*as at December 31, 1978

Officers*

Chairman	A. Jean de Grandpré, Q.C. Chairman of the Board and Chief Executive Officer			
President	James C. Thackray President			
Executive Vice-Presidents	J. V. Raymond Cyr Executive Vice-President Québec Region	Frederick E. Ibey Executive Vice-President Operations	Gordon E. Inns Executive Vice-President Ontario Region	Orland Tropea Executive Vice-President Administration
Vice-Presidents	Wilfred D. E. Anderson Vice-President Engineering Harry Bowler Vice-President Finance J. Robert Brûlé Vice-President Operations Staff, Québec Region Robert W. Crowley Vice-President Toronto Area, Ontario Region Claude Duhamel Vice-President Administration, Québec Region John H. Farrell Vice-President Regulatory Matters	Charles A. Harris Vice-President Public and Environmental Affairs George L. Henthorn Vice-President and Comptroller W. Brian Hewat Vice-President Operations Performance John A. McCutcheon Vice-President Marketing and Development Andrew M. McMahon Vice-President Computer Communications	Léonce Montambault Vice-President Montréal Area, Québec Region Harry Pilkington Vice-President Personnel Hubert A. Roth Vice-President North/East Area, Ontario Region Claude St-Onge Vice-President Québec Provincial Area, Québec Region Ernest E. Saunders, Q.C. Vice-President Law and Corporate Affairs John E. Sinclair Vice-President Systems	John E. Skinner Vice-President Administration, Ontario Region R. Douglas Sloane Vice-President Marketing, Ontario Region and Saudi Arabia-ATP John F. Stinson Vice-President Operations Staff, Ontario Region Robert N. Washburn Vice-President South/West Area, Ontario Region
	Guy Houle General Counsel	James T. Moore Secretary	J. Stuart Spalding Treasurer	

*As at December 31, 1978

Corporate Information

Trustee for Bonds

Canada Permanent Trust Company

Trustees for Debentures

The Royal Trust Company

Morgan Guaranty Trust
Company of New York

Transfer Offices for Bonds and Debentures

The Royal Trust Company
Montréal; Toronto;
St. John's Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Morgan Guaranty Trust
Company of New York,
New York, N.Y.
(For debentures issued in the United States)

Listing of Stock

Common Shares and
Preferred Shares:

Canada
Montréal, Toronto, Vancouver
Stock Exchanges

Common Shares:

Belgium
Brussels Stock Exchange

England
London Stock Exchange

France
Paris Stock Exchange

Germany
Frankfurt am Main, Dusseldorf
Stock Exchanges

Switzerland
Zurich, Basle, Geneva
Stock Exchanges

The Netherlands
Amsterdam Stock Exchange

United States
New York Stock Exchange

Transfer Offices for Stock

Company Offices—
1050 Beaver Hall Hill
Montréal
393 University Ave.
Toronto

The Royal Trust Company
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

The Royal Trust Company
London, England
(For common shares only)

Morgan Guaranty Trust
Company of New York,
New York, N.Y.
(For common shares only)

Registrar for Stock

Montréal Trust Company
Montréal; Toronto;
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Morgan Guaranty Trust
Company of New York,
New York, N.Y.
(For common shares only)

Williams & Glyn's Registrars Limited
London, England
(For common shares only)

Printed in Canada

Bell

Bell Canada Notice of Annual and Special General Meeting

The 99th Annual General Meeting of the Shareholders of Bell Canada, called also as a Special General Meeting, will be held at the Québec Hilton Hotel, in Québec City, on Tuesday, April 17, 1979, at 2:00 p.m., for the following purposes:

- to receive the Report of the Directors, the Consolidated Financial Statements of Bell Canada and subsidiary companies for the year ended December 31, 1978, and the Report of the Auditors on the Financial Statements;

- to elect Directors for the ensuing year;

- to appoint Auditors to examine the Company's accounts for the year 1979;

- to consider and, if deemed advisable, to confirm BY-LAW TWENTY-FIVE, amending BY-LAWS FOUR AND EIGHT, to provide greater flexibility in the selection and use of financial institutions;

- to consider and, if deemed advisable, to confirm BY-LAW TWENTY-SIX, amending BY-LAW TWENTY-FOUR, to provide that no further Preferred Shares be issued under BY-LAW TWENTY-FOUR;

- to consider and, if deemed advisable, to sanction BY-LAW TWENTY-SEVEN concerning the borrowing powers of the Company;

- to consider and, if deemed advisable, to confirm a Resolution of the Directors increasing the authorized Capital Stock of the Company from $1,750 million to $5,000 million;

- to consider and, if deemed advisable, to sanction BY-LAW TWENTY-EIGHT to create ten additional classes of Preferred Shares up to an aggregate amount of $1,000 million;

- to consider and, if deemed advisable, to sanction BY-LAW TWENTY-NINE to authorize the issuance of certificates, warrants or other evidences of conversion privileges, options or rights to acquire Company securities,

- to consider and, if deemed advisable, to sanction BY-LAW THIRTY to authorize the subdivision on a three-for-one basis of the issued and unissued Common Shares of the Company of a par value of $25 each; and

- to transact such other business as may properly be brought before the meeting.

Only registered owners of Common or Preferred Shares of Bell Canada, of record at the close of business on April 2, 1979, will be entitled to attend and to vote at the meeting.

By order of the Board of Directors,

J. T. Moore, Secretary

Montreal, March 12, 1979

Please Complete and Return Your Proxy

It is important that your shares be represented at the meeting and that your wishes be made known to the Directors. This will be assured, whether or not you attend the meeting, if you will complete and sign the enclosed proxy form, and return it as soon as possible in the postage-paid envelope provided. If you are, in fact, present at the meeting and choose to vote in person on any ballot that may be called for, your proxy will not be used; if you are not able to attend or do not wish to vote in person, your proxy will be exercised in accordance with your instructions as indicated thereon.

Information Circular and Proxy Statement Dated February 12, 1979

General

This Information Circular and Proxy Statement is furnished in connection with the solicitation by the management of Bell Canada of Proxies to be used at the Annual and Special General Meeting of the Shareholders of the Company to be held in Québec City, on April 17, 1979, and at all adjournments thereof. Solicitation of proxies will be by mail beginning on or about March 12, 1979, possibly supplemented by telephone or other personal contact by regular employees of the Company at nominal cost, and all costs thereof will be borne by the Company. No additional remuneration will be paid to the employees of the Company for these activities. The principal executive offices of the Company are located at 1050 Beaver Hall Hill, Montreal, Québec, Canada H3C 3G4.

Provisions Relating to Voting

As of the date of this circular, ownership of Bell Canada was represented by 47,386,108 Common Shares and 15,678,975 Preferred Shares of issued Capital Stock. Each share of the Capital Stock, whether common or preferred, entitles the registered holder thereof to one vote on each ballot taken at any general meeting of the Shareholders of the Company; such votes may be given in person or by proxy. The Shareholders have, by such means, the right to elect all Directors of the Company, to appoint Auditors, and to vote for or against any other matter of business that may properly be brought before the meeting.

Shares may either be voted for or withheld from voting in the election of Directors and the appointment of Auditors. On other matters they may either be voted for or voted against the proposal.

Only Shareholders of record on the Company's books at the close of business on April 2, 1979, will be entitled to attend or to register a vote at the Annual and Special General Meeting to be held on April 17, 1979.

Provisions Relating to Proxies

All shares represented by properly executed proxies received prior to the close of business (4:45 p.m.) on April 12, 1979, by the Company or by the Canada Permanent Trust Company, at P.O. Box 8715, Station A, Montreal, Québec, Canada H3C 3P3, who will act as official scrutineers at the meeting, will be voted or withheld from voting in accordance with the wishes of the Shareholders as specified thereon in any ballot that may be called for at the meeting. The form of proxy enclosed herewith, when properly signed, confers discretionary authority on the person or persons named as proxy with respect to any matter on which no choice is specified, and to all amendments or variations to matters identified in the Notice of Meeting and any other matter which may properly come before the meeting. The Directors and Officers of the Company are not aware of any matters other than those indicated in the accompanying Notice of Meeting which may be submitted to the meeting for action.

It should be noted that under the provisions of Article 7 of By-law Two of the Company, the person or persons named as proxy for a Bell Canada Shareholder must also be a qualified Shareholder entitled as such to attend and vote at the meeting. The instrument appointing a proxy must be in writing and be signed by the Shareholder or by a duly authorized attorney, or if the Shareholder is a corporation, by its duly authorized Officer or Officers. Any Shareholder giving a proxy has the power to revoke it by instrument in writing delivered to the Company Secretary in advance of the meeting, or by presenting himself at the meeting and choosing to vote in person on any ballot that may be called for.

Business to be Transacted at the Meeting
(as indicated in the Notice of Meeting, page 1)

■ Presentation of Annual Report and Financial Statements

The report of the Directors to the Shareholders, the consolidated financial statements of Bell Canada and subsidiary companies for the year ended December 31, 1978, and the report of the Shareholders' Auditors on the financial statements will be submitted to the meeting.

Financial statements of the Company for the years 1978 and 1977, a summary of operations for the five years ended 1978, management's discussion and analysis of the summary of operations and the report of the Company's Auditors on the financial statements, are included in the Company's Annual Report which has been mailed to all Shareholders and are incorporated herein by reference. A reconciliation of Canadian and United States generally accepted accounting principles appears in note 18 of the Notes to financial statements. The financial statements are presented in Canadian dollars. On December 31, 1978, one Canadian dollar was equivalent to 0.8432 in U.S. dollars.

Additional copies of the Annual Report, in English or in French, may be obtained from the Secretary of the Company, 1050 Beaver Hall Hill, Montreal, Québec, Canada H3C 3G4.

■ Election of Directors

A board of 20 Directors is to be elected to hold office until the next Annual General Meeting of the Shareholders.

The Shareholders nominated in the list which follows are, in the opinion of management, well qualified to direct the Company's activities in the next 12 months. All are present Directors of the Company; all have formally established their eligibility and willingness to serve.

It is the intention of the Shareholders whose names are printed in the enclosed proxy form to vote such proxy for the election of the nominees listed herein unless specifically instructed on the proxy form to withhold such vote.

In case any of the listed nominees should become unavailable prior to the Annual and Special General Meeting, the Shareholders designated in the proxy form will have the right to use their discretion in voting for a properly qualified substitute.

Nominees for election as Director *(See notes page 6)*	Beneficial Shareholdings in Bell Canada and Subsidiary Companies
Marcel Bélanger, O.C., C.A., of Québec, Québec, age 58, is President of Gagnon et Bélanger Inc., a management consultant firm, and is a former President of the Canadian Institute of Chartered Accountants. He has served as a Director since March 1969, is Chairman of the Board's Audit Committee and a member of the Management Resources & Compensation Committee.	Bell Canada Common 1,027 Bell Canada Preferred 2,000 (of which 1,000 are convertible into 400 Bell Canada Common Shares) Northern Telecom Limited Common 1,000
George Allan Burton, D.S.O., E.D., of Milton, Ontario, age 64, is Chairman of the Board and Chief Executive Officer of Simpsons, Limited, retail department stores. He has served as a Director of Bell Canada since May 1974 and is a member of the Management Resources & Compensation Committee.	Bell Canada Common 100
Albert Jean de Grandpré, Q.C., of Outremont, Québec, age 57, is Chairman of the Board and Chief Executive Officer of the Company. He has served as a Director since July 1972, is Chairman of the Executive Committee and a member of the Social & Environmental Affairs Committee. He is also a Director of Northern Telecom Limited and Chrysler Corporation.	Bell Canada Common 2,827 Northern Telecom Limited Common 1,000

Nominees for election as Director *(See notes page 6)*	Beneficial Shareholdings in Bell Canada and Subsidiary Companies
James Douglas Gibson, O.B.E., of Toronto, Ontario, age 69, is Chairman, President and Chief Executive Officer of The Consumers' Gas Company, a natural gas distributor. He has served as a Bell Canada Director since March 1970 and is a member of the Management Resources & Compensation Committee and of the Pension Fund Policy Committee. He is also a Director of Northern Telecom Limited and Home Oil Company Limited.	Bell Canada Common 400 *(F)* Northern Telecom Limited Common 1,000
Henry Clifford Hatch of Windsor, Ontario, age 62, is Chairman of the Board and Chief Executive Officer of Hiram Walker-Gooderham & Worts Limited, an international distiller. He has served as a Director of Bell Canada since April 1974 and is a member of both the Audit and Management Resources & Compensation Committees.	Bell Canada Common 200 *(G)*
James Winslow Kerr of Toronto, Ontario, age 64, is Chairman and Chief Executive Officer of TransCanada PipeLines Limited, a gas transmission company. Mr. Kerr has served as a Director of Bell Canada since August 1970 and is Chairman of the Management Resources & Compensation Committee.	Bell Canada Common 265
Paul Henri Leman, O.C., of Outremont, Québec, age 63, is Vice-Chairman of the Board of Alcan Aluminium Limited, an industrial company. He has served as a Director of Bell Canada since April 1976 and is a member of both the Executive and Audit Committees.	Bell Canada Common 275
Helen Lavina Margison, of Toronto, Ontario, age 61, is President of Shed Investments Ltd., a private investments firm dealing in securities and real estate. She has served as a Director since April 1978 and is a member of the Social & Environmental Affairs Committee. She is also a Director of IAC Limited.	Bell Canada Common 510
Edward Neil McKelvey, Q.C., of Saint John, New Brunswick, age 53, is a Partner in the law firm of McKelvey, Macaulay, Machum, and is a former President of The Canadian Bar Association. He has served as a Director since April 1973 and is a member of both the Audit and Pension Fund Policy Committees.	Bell Canada Common 300 Northern Telecom Limited Common 100
John Henderson Moore of London, Ontario, age 63, is Chairman of the Board of Brascan Limited, a diversified holding company. He has served as a Director of Bell Canada since March 1966 and is a member of the Executive Committee and of the Board's Audit Committee. He is also a Director of Northern Telecom Limited and Canadian Pacific Limited.	Bell Canada Common 2,000 *(H)* Northern Telecom Limited Common 3,600

Nominees for election as Director *(See notes page 6)*	**Beneficial Shareholdings in Bell Canada and Subsidiary Companies**
Joseph Dean Muncaster of Toronto, Ontario, age 45, is President of Canadian Tire Corporation, Limited, a wholesale distributor of automotive, hardware and sporting goods. He has served as a Director since April 1977 and is Chairman of the Pension Fund Policy Committee. He is also a Director of Black and Decker Manufacturing Company and Consolidated Foods Corporation.	Bell Canada Common 100 Bell Canada Preferred 500
Gérard Plourde of Montreal, Québec, age 63, is Chairman of the Board and Chief Executive Officer of U A P Inc., an automotive parts distributor. He has served as a Director of Bell Canada since January 1973 and is a member of the Executive Committee. He is also a Director of Northern Telecom Limited.	Bell Canada Common 3,346.8 Northern Telecom Limited Common 2,800
Louis Rasminsky, C.C., C.B.E., of Ottawa, Ontario, age 71, is a former Governor of the Bank of Canada. He has served as a Director of Bell Canada since September 1973 and is a member of the Executive Committee and of the Pension Fund Policy Committee. He is also a Director of American Express Company and Alcan Aluminium Limited.	Bell Canada Common 175 *(l)*
Robert John Richardson, Sc.D., of Greenville, Delaware, age 50, is Vice-President—Finance of E.I. du Pont de Nemours & Company, Incorporated, a chemical manufacturer, and Chairman of the Board of Du Pont of Canada Limited. He has served as a Director of Bell Canada since January 1978 and is a member of the Pension Fund Policy Committee.	Bell Canada Common 100
John Parmenter Robarts, P.C., C.C., Q.C., of Toronto, Ontario, age 62, a former Premier of Ontario, is a member of the law firm of Stikeman, Elliott, Robarts & Bowman. He has served as a Director since June 1971 and is a member of the Pension Fund Policy Committee and of the Social & Environmental Affairs Committee.	Bell Canada Common 101
Harold Rocke Robertson, C.C., M.D., of Mountain, Ontario, age 66, is a former Principal and Vice-Chancellor of McGill University. He has served as a Director since July 1965 and is a member of the Executive Committee and of the Social & Environmental Affairs Committee.	Bell Canada Common 63
Lucien Gilbert Rolland of Westmount, Québec, age 62, is President and Chief Executive Officer of Rolland Paper Company, Limited, a paper manufacturer. He has served as a Director since July 1965 and is a member of the Pension Fund Policy Committee. He is also a Director of Inco Limited, Canadian Pacific Limited and Canadian Fund Inc.	Bell Canada Common 740

Nominees for election as Director *(See notes below)*	Beneficial Shareholdings in Bell Canada and Subsidiary Companies
Robert Carlton Scrivener of Montreal, Québec, age 64, is Chairman of the Board and Chief Executive Officer of Northern Telecom Limited. A former Chairman of Bell Canada, he has served as a Director since November 1967 and is a member of the Executive Committee. He is also a Director of Caterpillar Tractor Co., Hiram Walker-Gooderham & Worts Limited, Tennessee Valley Bancorp, Inc. and United States Steel Corporation.	Bell Canada Common 562 Northern Telecom Limited Common 3,014
James Carden Thackray of Westmount, Québec, age 54, is President of the Company and has served as a Director from April to June 1971 and continuously since April 1976. He is a member of the Executive Committee and of the Social & Environmental Affairs Committee. He is also a Director of Northern Telecom Limited and Kimberly-Clark Corporation.	Bell Canada Common 1,569 Northern Telecom Limited Common 500
Louise Brais Vaillancourt of Outremont, Québec, age 52, former President of La Corporation de l'Hôpital Marie Enfant, has served as a Director of Bell Canada since January 1975, is a member of the Audit Committee and Chairman of the Social & Environmental Affairs Committee.	Bell Canada Common 270 Bell Canada Preferred 2,200 (convertible into 980 Bell Canada Common Shares)

Notes: A) *All of the above-named nominees have held their present positions or other executive positions with the same or affiliated firms or organizations during the past five years. Mr. Marcel Bélanger, prior to February 1979, was also a Partner in the accounting firm of Bélanger, Dallaire, Gagnon & Associés.*

B) *Directorships listed for each nominee are limited to companies with a class of securities registered pursuant to Section 12 of the United States Securities Exchange Act of 1934 or subject to the requirements of Section 15(d) of that Act or registered under the United States Investment Company Act of 1940.*

C) *The Directors' shares listed above include shares owned by members of their immediate families, estates and family corporations.*

D) *The nominees, and/or persons referred to in Note C, have sole voting and investment power with respect to the securities listed.*

E) *The Directors' shareholdings listed above are their holdings as of the date of this Information Circular and Proxy Statement and are the same as their holdings as at December 31, 1978, with the exception of: Mr. McKelvey who converted 200 Bell Canada Preferred Shares into 200 Bell Canada Common Shares; Mr. Thackray who acquired 707 Bell Canada Common Shares; Mr. Gibson who disposed of 1,000 Northern Telecom Limited Warrants; and Mr. Plourde, due to acquisitions totalling 51.5 Bell Canada Common Shares; all in January 1979.*

F) *The shares listed exclude 210 Northern Telecom Limited Common Shares and 40 Bell Canada Common Shares owned by his spouse and 300 Northern Telecom Limited Common Shares owned by his spouse as custodian for their three minor children; Mr. Gibson disclaims beneficial ownership of such shares.*

G) *The shares listed exclude 254 Bell Canada Common Shares, 100 Bell Canada Preferred Shares convertible into 100 Bell Canada Common Shares and 100 Northern Telecom Limited Warrants owned by the spouse of Mr. Hatch; Mr. Hatch disclaims beneficial ownership of such shares and warrants.*

H) *The shares listed exclude 185 Bell Canada Common Shares, 100 Northern Telecom Limited Common Shares and 10 Bell Canada Preferred Shares convertible into 10 Bell Canada Common Shares owned by his spouse and 36.3 Bell Canada Common Shares owned by his daughter; Mr. Moore disclaims beneficial ownership of such shares.*

I) *The shares listed exclude 1,125 Bell Canada Common Shares and 500 Northern Telecom Limited Warrants owned by the estate of his deceased spouse; Mr. Rasminsky, who is one of the four executors of the estate, disclaims beneficial ownership of such shares and warrants.*

Appointment of Auditors

A firm of Auditors is to be appointed by vote of the Shareholders at the Annual and Special General Meeting to serve as Auditors of the Company until the next Annual General Meeting. The Board of Directors, on the advice of the Audit Committee, recommends that Touche Ross & Co. be reappointed as the Shareholders' Auditors. This firm and its predecessor firms have served the Company and its Shareholders in this capacity since 1881.

One or more representatives of Touche Ross & Co. will attend the Annual and Special General Meeting, will be given an opportunity to make a statement if they so wish and will be available to answer questions.

BY-LAW TWENTY-FIVE, amending BY-LAWS FOUR and EIGHT, to provide greater flexibility in the selection and use of financial institutions:

The Shareholders will be asked to consider and, if deemed advisable, to confirm BY-LAW TWENTY-FIVE, amending BY-LAWS FOUR and EIGHT, to provide greater flexibility in the selection and use of financial institutions. To be confirmed, BY-LAW TWENTY-FIVE must be approved by a majority of the votes cast. BY-LAW TWENTY-FIVE was enacted by the Directors on May 24, 1978 and came into force at such time. In default of confirmation by the Shareholders, BY-LAW TWENTY-FIVE shall, at and from that time only, cease to have force. The text of BY-LAW TWENTY-FIVE is set forth in detail in Schedule A hereto.

Due to the wording of Company By-laws in effect prior to enactment of BY-LAW TWENTY-FIVE, the deposit and withdrawal of Company funds was restricted to accounts in banks and trust companies. The effect of BY-LAW TWENTY-FIVE is to remove this technical limitation and permit such dealings with other financial institutions, such as credit and savings unions. The confirmation of such By-law is considered necessary due to the growing economic role and extensive branch network of such financial institutions and the Directors recommend that the Shareholders vote FOR the approval of BY-LAW TWENTY-FIVE.

BY-LAW TWENTY-SIX, amending BY-LAW TWENTY-FOUR, to provide that no further Preferred Shares be issued under BY-LAW TWENTY-FOUR:

The Shareholders will be asked to consider and, if deemed advisable, to confirm BY-LAW TWENTY-SIX which provides for the cancellation of the unused portion of preferred share authorization granted by previous BY-LAW TWENTY-FOUR. BY-LAW TWENTY-SIX was enacted by the Directors on November 22, 1978 and requires the affirmative vote of at least two-thirds of the total votes cast at this meeting and is set forth in detail in Schedule A hereto.

BY-LAW TWENTY-FOUR authorized the issuance of 8,000,000 Preferred Shares to a maximum aggregate amount of $200,000,000; 7,000,000 Convertible Preferred Shares with a par value of $25 each were issued for an aggregate amount of $175,000,000 ($1.96 Cumulative Redeemable Convertible Voting Preferred Shares of the par value of $25 each, Class D, Series G) and, at the date of this circular, 6,990,911 of such shares are outstanding. The cancellation of the unused portion will have no effect on the rights of the holders of such issued and outstanding shares.

The Shareholders will also be asked to consider at the same meeting, as set forth below and, if deemed advisable, to sanction BY-LAW TWENTY-EIGHT providing for the creation of ten additional classes of Preferred Shares. The effect of the adoption of BY-LAW TWENTY-SIX will be to make available the amount of $25,000,000 for the issuance of additional Common Shares or of other classes of shares of the Company. The Directors recommend that the Shareholders vote FOR the approval of BY-LAW TWENTY-SIX.

BY-LAW TWENTY-SEVEN concerning the borrowing powers of the Company:

The Shareholders will be asked to consider and, if deemed advisable, to sanction BY-LAW TWENTY-SEVEN concerning the borrowing powers of the Company. BY-LAW TWENTY-SEVEN was enacted by the Directors on November 22, 1978 and requires the affirmative vote of at least two-thirds of the votes

cast at this meeting and is set forth in detail in Schedule A hereto.

BY-LAW TWENTY-SEVEN, which repeals the statutory provisions under which the Company presently borrows money and issues debt securities, was enacted pursuant to and substantially repeats Section 2.1 of the Company's Act of Incorporation. Section 2.1 was adopted by an amendment of April 12, 1978 to the Company's Act of Incorporation.

Section 2.1 permits greater flexibility in carrying out the Company's financing program. It substantially repeats Section 65 of the Canada Corporations Act and provides the Directors with general borrowing powers similar to those provided for a Company incorporated by Letters Patent under such Act. Prior to the adoption of BY-LAW TWENTY-SEVEN, Bell Canada borrowed money and issued debt securities under two statutory provisions in its Act of Incorporation: i) a general borrowing power provision, up to an amount not exceeding the amount of the paid-up capital of the Company; and ii) a further power to borrow money by the issuance of certain debt instruments for such amount or amounts as have been approved from time to time by the Shareholders. BY-LAW TWENTY-SEVEN is designed to permit the Company to borrow money without the necessity of securing shareholder approval for increases in the amount of borrowings from time to time. The Directors are authorized, without further shareholder authorization, to issue bonds, debentures, debenture stock or other securities of the Company with such attributes, including interest rates, redemption prices and maturity dates as the Directors, or any Officer or Officers, Director or Directors of the Company to whom such power is delegated by resolution, may determine. The Company expects to continue the regular issuance of short-term promissory notes after the enactment of BY-LAW TWENTY-SEVEN. At the date of this circular, the Company has no specific plans to make an issue of securities under BY-LAW TWENTY-SEVEN.

BY-LAW TWENTY-SEVEN brings the Company's borrowing powers into conformity with Section 2.1, and accordingly, the Directors recommend that the Shareholders vote FOR the approval of BY-LAW TWENTY-SEVEN.

Resolution of the Directors increasing the authorized Capital Stock of the Company from $1,750 million to $5,000 million:

The Shareholders will be asked to consider and, if deemed advisable, to confirm a resolution adopted by the Directors on November 22, 1978 (hereinafter the "Resolution") providing for an increase in the Capital Stock presently authorized by the Shareholders, from $1,750 million to $5,000 million. To be confirmed, the Resolution requires the affirmative vote of a majority of the votes cast and is set forth in detail in Schedule A hereto.

The Company's Act of Incorporation was amended on April 12, 1978 to authorize an increase, from time to time, in the present authorized Capital Stock of $1,750 million by such amounts not to exceed in the aggregate $3,250 million as may be determined by resolution of the Directors and duly confirmed by the Shareholders provided that the total Capital Stock of the Company, including the present authorized Capital Stock of $1,750 million, shall not exceed $5,000 million. At the date of this information circular, the issued and outstanding Capital Stock consisted of Common and Preferred Shares with an aggregate par value of $1,581,792,238 leaving a residue of authorized Capital Stock, after taking into account Common Shares allotted but unissued and Preferred Shares purchased for cancellation and cancelled, of $45,466,262.

The increase of $3,250 million in the amount of Capital Stock will result in additional shares being available for issuance from time to time without any requirement for further shareholder approval. The number of such additional shares which may ultimately be issued is dependent upon: i) the par values assigned to such shares by the Directors at the time of each issue; and ii) in the case of shares without par value, the total consideration received for the issue of such shares. The Company at the date of this circular, has no specific plans to issue additional shares pursuant to the Resolution.

The Directors have determined that an increase in Capital Stock of $3,250 million provided for by the amendment of April 12, 1978 to the Company's Act of Incorporation will provide maximum flexibility in raising

additional equity capital as required, and accordingly, recommend that the Shareholders vote FOR the Resolution increasing the Capital Stock to the authorized statutory limit of $5,000 million.

BY-LAW TWENTY-EIGHT creating ten additional classes of Preferred Shares up to an aggregate amount of $1,000 million: The Shareholders will be asked to consider and, if deemed advisable, to sanction BY-LAW TWENTY-EIGHT which provides for the creation of ten additional classes of Preferred Shares up to an aggregate amount of $1,000 million. BY-LAW TWENTY-EIGHT was enacted by the Directors on November 22, 1978 and requires the affirmative vote of at least two-thirds of the votes cast, and is set forth in detail in Schedule A hereto. The adoption of BY-LAW TWENTY-EIGHT is dependent upon the confirmation at the same meeting of the Resolution of the Directors increasing the authorized Capital Stock of the Company from $1,750 million to $5,000 million.

The Company's previously enacted By-laws provide for four classes of Preferred Shares with an aggregate maximum amount of $738 million. As of the date of this circular, Preferred Shares with an aggregate amount of $713 million had been issued pursuant to such By-laws.

The terms of the Preferred Shares to be issued under the authority of BY-LAW TWENTY-EIGHT, including dividend rates, conversion prices, if any, voting rights, redemption prices, par values, if any, and similar matters, will be determined by the Board of Directors. The number of such additional shares which may ultimately be issued is dependent upon: i) the par values assigned to such shares by the Directors at the time of each issue; and ii) in the case of shares without par value, the total consideration received for the issue of such shares.

As of the date of this circular, Bell Canada has no specific plans to issue Preferred Shares pursuant to BY-LAW TWENTY-EIGHT. The sanctioning of BY-LAW TWENTY-EIGHT, however, is considered necessary to provide freedom of choice in financing instruments if needed additional capital is to be acquired to the best advantage of the Company, its Shareholders and its Customers. The Directors recommend that the Shareholders vote FOR approval of BY-LAW TWENTY-EIGHT.

BY-LAW TWENTY-NINE to authorize the issuance of certificates, warrants or other evidences of conversion privileges, options or rights to acquire Company securities: The Shareholders will be asked to consider and, if deemed advisable, to sanction BY-LAW TWENTY-NINE to authorize the issuance of transferable and non-transferable certificates, warrants or other evidences of conversion privileges, options or rights to acquire securities of the Company. To be sanctioned, BY-LAW TWENTY-NINE must be approved by at least two-thirds of the votes cast. BY-LAW TWENTY-NINE was enacted by the Directors on November 22, 1978 and is set forth in detail in Schedule A hereto.

BY-LAW TWENTY-NINE substantially repeats Section 29 of the Canada Business Corporations Act and provides the Company with powers substantially identical to the corresponding powers granted to companies incorporated by articles of incorporation under such Act.

While more specific and detailed than the corresponding provisions in the Company's By-laws and Act of Incorporation in effect prior to the 1978 Amendments, BY-LAW TWENTY-NINE essentially provides the Directors with the same previously held substantive powers to issue, without further shareholder authorization, certificates, warrants or other evidences of conversion privileges, options or rights to acquire securities of the Company.

As of the date of this circular, the Company has no specific plans to issue certificates, warrants or other evidences of conversion, options or rights pursuant to BY-LAW TWENTY-NINE. The sanctioning of BY-LAW TWENTY-NINE, however, is considered necessary to continue to provide the Company with freedom of choice in financing instruments and the Directors recommend that the Shareholders vote FOR the approval of BY-LAW TWENTY-NINE.

BY-LAW THIRTY to authorize the subdivision on a three-for-one basis of the issued and unissued Common Shares of the Company of a par value of $25 each: The Shareholders will be asked to consider and, if deemed advisable, to sanction BY-LAW THIRTY, providing for the subdivision, on a three-for-one basis, of all of the issued and unissued Common Shares of the Company of the par value of $25 each. To be sanctioned, BY-LAW THIRTY must be approved by at least two-thirds of the votes cast. BY-LAW THIRTY was enacted by the Directors on November 22, 1978 and is set forth in detail in Schedule A hereto.

BY-LAW THIRTY was enacted pursuant to new section 5(5)(g) of the Company's Act of Incorporation, adopted by Section 2 of the 1978 Amendments.

After the coming into force of the proposed By-law, each Common Share of the par value of $25 will be subdivided into three Common Shares of the par value of $8⅓, and the total number of issued and outstanding Common Shares of the Company, based upon the number of Common Shares issued and outstanding at the date of this circular, will be increased from 47,386,108 to 142,158,324.

The amount of the authorized Capital Stock of the Company will not be affected by the By-law. The aggregate amount of the Capital Stock of the Company represented by the issued and outstanding Common Shares, being an amount of $1,184,652,700 at the date of this circular, will not be affected by the subdivision.

If sanctioned by the Shareholders, BY-LAW THIRTY will come into force or effect at such time and date as the Directors shall fix by resolution. The close of business on such date will be the record date for determination of the holders of the Common Shares of the Company for purposes of the subdivision. It is presently expected that the record date for the subdivision will be April 25, 1979. As soon as practicable after the record date, the Company would mail certificates representing two additional shares for each share held on the record date to Shareholders on the record date. It is presently expected that the Company will commence mailing of certificates on or about May 8, 1979. Each share held, together with the two additional shares to be mailed, would make up the three subdivided shares. Therefore, no action is required on the part of individual Shareholders if BY-LAW THIRTY becomes effective, **in particular, Shareholders SHOULD RETAIN their share certificates, both before and after the subdivision, and NOT return any share certificates to the Company.**

The certificates representing issued and outstanding Common Shares of the par value of $25 each shall, after the effective date and record date for the subdivision, represent the same number of Common Shares respectively, but of a par value of $8⅓ each. The subdivision will not change any Shareholder's proportionate share in the equity of the Company. There will be no change in any of the rights of the holders of the Company's shares as a result of the proposed subdivision. At the date of this circular, there were issued and outstanding 10,714,275 Preferred Shares convertible into Common Shares, with an aggregate par value of $283,198,538. Under the terms and conditions of such Preferred Shares, the conversion ratio for each series is proportionately adjusted in the case of a subdivision of the Company's Common Shares.

The Company will apply for the listing on the stock exchanges on which its Common Shares are listed of the additional Common Shares to be issued as a result of the subdivision.

The Company has been advised by Counsel that under the present provisions of the Income Tax Act of Canada and the United States Internal Revenue Code, Shareholders will not realize taxable income for Canadian or United States federal income tax purposes by reason of the subdivision of each of the issued and unissued Common Shares of the par value of $25 each into three Common Shares of the par value of $8⅓ each in accordance with BY-LAW THIRTY.

It should be noted that on sales and purchases of the new $8⅓ par value Common Shares, because of the increased number of shares, brokerage charges and any stock transfer taxes may be higher than on sales and purchases of the present $25 par value Common Shares, assuming a transaction involving equivalent market value.

The Directors believe the subdivision on a three-for-one basis will create increased interest in the shares of the Company and will lead to broader share ownership.

The Directors recommend that the Shareholders vote FOR approval of BY-LAW THIRTY.

Other Business

The Chairman and the President will report on recent events of significance to the Company and on other matters of concern to the Shareholders and will invite questions and comments from the floor.

Following the meeting, there will be an opportunity for the Shareholders to meet informally and talk with individual Directors and Officers of the Company.

Pertinent Information Concerning the Directors

Board Attendance

The Board of Directors held eighteen meetings in 1978. The Directors who attended seventy-five percent or more of the aggregate of all Board meetings and of meetings held by all committees of the Board on which they served, are Marcel Bélanger, Albert Jean de Grandpré, Paul Henri Leman, Helen Lavina Margison, Gérard Plourde, Harold Rocke Robertson and Louise Brais Vaillancourt; Directors who attended fewer than seventy-five percent of such meetings are George Allan Burton, James Douglas Gibson, Henry Clifford Hatch, James Winslow Kerr, Edward Neil McKelvey, John Henderson Moore, Joseph Dean Muncaster, Louis Rasminsky, Robert John Richardson, John Parmenter Robarts, Lucien Gilbert Rolland, Robert Carlton Scrivener and James Carden Thackray. A total of sixteen Directors attended seventy-five percent or more of regularly scheduled Board meetings.

Committee Functions

Committees of the Board include the Management Resources & Compensation Committee and the Audit Committee.

The Management Resources & Compensation Committee, which met four times in 1978, consists of five Directors none of whom is an Officer of the Company. Their responsibilities include the review of the qualifications of persons proposed for appointment or election to the Board and the submission of recommendations for Board consideration and decision. Compensation-related responsibilities include conducting an annual review and the submission of recommendations for the consideration of the Board relating to Directors' and Officers' remuneration.

The Audit Committee, which met seven times in 1978, consists of six Directors, none of whom is an Officer of the Company. The Committee's responsibilities include the review of the Company's financial statements, review of the efficacy of the Company's internal accounting controls, advice on the selection and remuneration of the Company's independent chartered accountants and the furnishing to the Company of non-audit services by such accountants and advice to the Board of Directors on the establishment of procedures to ensure compliance with the Company's code of ethical business conduct.

Information Concerning Transactions with Interested Parties

Since January 1, 1978, the Company and its subsidiaries, in addition to having had routine dealings as suppliers of services and equipment to various organizations with which Directors of the Company are affiliated as Officers or Partners, have had other transactions with or have purchased products or services of a number of such organizations, or their subsidiaries. This includes retaining in 1978 (and in 1977) the law firm of Stikeman, Elliott, Robarts & Bowman of which Mr. Robarts, a Director of Bell Canada, is a member. The amounts involved in the above transactions have in no case been material, nor exceeded one percent of consolidated gross revenues, in relation to the business of the Company and its subsidiaries, with the exception of the purchases, as reported in Bell Canada's financial statements incorporated herein by reference, of telecommunications equipment from Northern Telecom Limited, the Company's 61.0 percent owned manufacturing subsidiary, with which six Directors of the Company are affiliated as Directors, including one also affiliated as an Officer. With the exception of such

sales by Northern Telecom Limited, which represent approximately 40 percent of Northern Telecom Limited's 1978 consolidated gross revenues, it is believed that the above-mentioned dealings and transactions have not been material, nor exceeded one percent of consolidated gross revenues, in relation to the business of such other organizations or to the individuals concerned. It is expected that the Company and its subsidiaries will continue to have similar dealings with such organizations in the future. The Company and its subsidiaries also have transactions with or use products and services of a number of organizations with which the Directors or Officers of the Company are affiliated as Directors. In 1978, the Company and its subsidiaries used products and services in amounts representing approximately one percent of the 1978 consolidated gross revenues of a company, Union Carbide Canada Limited, with which a Director of the Company, Mr. Thackray, was affiliated as a Director. In 1978, exclusive of publicly offered debt securities, Bell Canada or its subsidiaries was indebted for an aggregate amount in excess of (U.S.) $5,000,000 to the following financial institutions with which a Director of Bell Canada is affiliated as a Director: Bank of Montreal, Messrs. Rolland and Thackray; The Canadian Imperial Bank of Commerce, Messrs. Kerr, Moore, Robarts and Scrivener; The Royal Bank of Canada, Mr. Burton; The Toronto-Dominion Bank, Messrs. de Grandpré, Hatch, Plourde and Richardson; and Metropolitan Life Insurance Company, Mr. Robarts.

Security Ownership of Management

As at the date of this circular, all Directors and Officers of Bell Canada as a group beneficially owned in the aggregate less than 0.25 percent of any class of equity securities of Bell Canada or its subsidiaries.

Information Concerning Remuneration of Directors and Officers

The following table shows the aggregate direct remuneration paid in 1978 by Bell Canada and its subsidiaries to all Directors and Officers, by groups, for services rendered in all capacities. In the data which follow, the names of subsidiary companies have been abbreviated as indicated in brackets: Northern Telecom Limited (NTL); Northern Telecom Inc. (NTI); and Nedco Ltd. (Nedco).

Directors' and Officers' Remuneration from Bell Canada and its Subsidiaries

	Nature of Remuneration Earned				
	Directors' fees	Salaries	Bonuses (note 1)	Others (note 2)	Total
Remuneration of Directors					
(A) Number of Directors: 21					
(B) Body Corporate incurring the expense:					
Bell Canada	$242,000				$242,000
NTL	71,000				71,000
NTI	13,000				13,000
Nedco	2,000				2,000
Remuneration of Officers					
(A) Number of Officers: 30					
(B) Body Corporate incurring the expense:					
Bell Canada		$2,437,000	$280,000	$158,000	$2,875,000
Totals	$328,000	$2,437,000	$280,000	$158,000	$3,203,000

Note 1: Bonuses, which are performance based, are awarded annually at the discretion of the Board of Directors upon the recommendation of the Management Resources & Compensation Committee.

Note 2: Includes Employees' Savings Plan (1970), life insurance, health insurance and car allowance benefits. There were no non-accountable expense allowances.

Note 3: The estimated aggregate cost to Bell Canada and its subsidiaries, during the year 1978, of all pension benefits proposed to be paid by them in the event of retirement at the mandatory retirement age (65 years), directly or indirectly, to the Directors and Officers of Bell Canada was $337,000. No pension benefits are proposed to be paid by Bell Canada to any Director except in respect of full-time service as an Officer of Bell Canada.

Note 4: The aggregate of all amounts other than those appearing herein paid in 1978 by Bell Canada and its subsidiaries in respect of remuneration of Directors and Officers is $170,000. The aggregate amount of such payments proposed to be made in future by Bell Canada and its subsidiaries pursuant to existing plans is dependent upon decisions to be made from time to time by the appropriate Boards of Directors.

The following table shows the aggregate remuneration for services in all capacities to Bell Canada and its subsidiaries in 1978 for each of the five highest compensated executive Officers or Directors of Bell Canada as to whom the total remuneration disclosed in the third and fourth columns below, exceeded $50,000 and for all Officers and Directors of Bell Canada as a group. For arrangements relating to compensation of Bell Canada Directors for their services as such, see note 4 on the following page.

Name of individual of persons in group	Capacities in which served (1)	Salaries, fees, Directors' fees, commissions and bonuses	Securities or property, insurance benefits or reimbursement, personal benefits (2)	Aggregate of contingent forms of remuneration
A.J. de Grandpré	Chairman of the Board and Chief Executive Officer of Bell Canada; Director of NTL and NTI	$ 219,000	$ 10,000	$ 110,000 (3) (6)
R.C. Scrivener	Chairman of the Board and Chief Executive Officer of NTL; Director of Bell Canada, NTI and Nedco	195,000	7,000	— (7)
J.C. Thackray	President of Bell Canada; Director of NTL and NTI	170,000	8,000	60,000 (3) (6)
F.E. Ibey	Executive Vice-President (Operations) of Bell Canada; Director of NTI and Nedco	138,000	5,000	— (6)
O. Tropea	Executive Vice-President (Administration) of Bell Canada	130,000	5,000	— (6)
Directors and Officers as a group (consisting of 49 persons, including those named above)		$3,255,000	$165,000	— (6)

(1) Remuneration is not given for any portion of 1978 during which a person was not an Executive Officer, Officer or Director of Bell Canada.

(2) Includes life insurance, health insurance, car allowance benefits, Bell Canada's contributions under the Employees' Savings Plan (1970), and the spread between the acquisition and fair market prices of shares issued under the Employees' Savings Plan (1966).

(3) Represents the amount expensed by Bell Canada for financial reporting purposes in 1978 under special retirement plans.

(4) Each Director who is not a salaried Officer of Bell Canada is entitled to be paid $4,000 per annum for his services as Director, $3,000 per annum for his services as member of the Executive Committee of the Board and $2,000 per annum per committee for his services as member of any Standing Committees of the Board. In all cases, the Directors are entitled to an attendance fee of $300 per day and the reimbursement of their expenses. Additional special remuneration may be paid to a Director undertaking any special services beyond those ordinarily required of a Director by the Company: in 1978, one Director received $300 for such special services.

(5) Eligible Officers who are enrolled in Bell Canada's Employees' Savings Plan, as in effect from July 1, 1966 to June 30, 1970, are entitled to assign dividends from shares acquired under such plan or former plans towards the purchase of Common Shares of the Company at 85 percent of the lesser of the average market price during the three-month period prior to the commencement of the payment period or during the last three months of the payment period. Eligible Officers received a total of 874 Common Shares during 1978 under this plan at an average price per share of $42.83.

(6) Bell Canada Directors who are also Officers of Bell Canada and all other Bell Canada Officers participate in the Company's non-contributory defined benefit plan, providing pensions based on pensionable service and the average of the best five years' pensionable earnings:

a. the amount of the contribution, payment or accrual made by the Company for the year 1978 for Officers, individually or as a group, is not and cannot readily be separately or individually calculated by the Company's actuaries;

b. in 1978, Bell Canada's contributions amounted to 13.5 percent of the total pensionable earnings of all plan participants;

c. the following table shows estimated annual pension benefits, expressed in each case as a percentage of the average of the best five years' pensionable earnings, payable upon retirement on January 1, 1979 at age 65 to persons in specified earnings and service classifications:

Pensionable Service	Average of Pensionable Earnings During Best Five Years			
	$50,000	$100,000	$150,000	$200,000
20 years	24.63%	25.32%	25.54%	25.66%
30 years	37.63%	38.32%	38.54%	38.66%
40 years	50.63%	51.32%	51.54%	51.66%

Certain percentages in the table above reflect the payment of benefits in excess of the maximum established by the Department of National Revenue of Canada, which benefits may be paid at the discretion of the Company under a supplemental plan.

(7) In connection with his employment on May 2, 1976 an as Officer of Northern Telecom, Mr. Scrivener has two agreements with Northern Telecom establishing special pension arrangements for Mr. Scrivener due to his inability to participate in Northern Telecom's pension plan because of his age at time of employment. One agreement will provide Mr. Scrivener, upon his retirement from Northern Telecom, with a monthly pension in a maximum amount of $3,600 subject to reduction in accordance with survivorship provisions. The second agreement will provide Mr. Scrivener, upon his retirement, with a supplementary monthly pension in a maximum amount of U.S. $3,460 or such lesser amount as may be established in accordance with the terms of this agreement; the agreement also provides that Mr. Scrivener may from time to time in the future be awarded supplemental amounts at the discretion of the Board of Directors of Northern Telecom. Mr. R. C. Scrivener has an employment contract to serve as Chairman of the Board and Chief Executive Officer of Northern Telecom for the period ending December 31, 1979. This contract is terminable by either party on three months' notice. In the event of termination by Northern Telecom, he is entitled to an amount equal to one half of annual salary.

Liability Insurance

Group liability insurance in the amount of $15,000,000 is purchased for the protection of all the Directors and Officers of Bell Canada against liability incurred by them in their capacities as Directors and Officers of the Company and subsidiary or associated companies. There is no sub-limit specified for any individual covered thereunder. The Company and the individuals concerned each paid a portion of the premium in 1978. The amount of premium paid by the Company in 1975, for a three-year period ending June 30, 1978, in respect of the Directors as a group was $25,677 and in respect of the Officers as a group was $41,373. The amount of premium paid in 1975, for the same three-year period, by the individuals in each such group was respectively, $2,853 and $4,597. The amount of premium paid by the Company for a one-year period ending June 30, 1979, in respect of the Directors as a group was $13,448 and in respect of the Officers as a group was $22,414. The amount of premium paid for the six months ending December 31, 1978 by the individuals in each such group was respectively, $864 and $1,440. In any case in which the Company is not permitted by law to reimburse the insured, the deductible is $10,000 per individual with an aggregate of $50,000. Where the Company is permitted to reimburse the insured, the deductible is $110,000. In addition, five percent of the first $1,000,000 of any claim is deductible in all cases.

Information Concerning Audit Services

Audit services performed by Touche Ross & Co. for Bell Canada and its subsidiaries for the year ended December 31, 1978 consisted of the examination of financial statements of Bell Canada and its subsidiaries and the preparation of various reports based thereon, services related to filings with Canadian securities commissions, other Canadian regulatory authorities and the United States Securities and Exchange Commission and other audit-related services.

Fees for non-audit services for Bell Canada and its subsidiaries were approximately 31.0 percent of audit fees for the year. There were no individual non-audit services for which fees were three percent or more of audit fees, except services relating to the improvement in internal control of certain systems and procedures which amounted to approximately 12.6 percent of audit fees. Other non-audit services included preparation and assistance relating to various tax returns, tax and related advice concerning acquisitions and general tax-related advice .

The Audit Committee of the Board of Directors approved in advance the types and amounts of non-audit services to be provided Bell Canada by Touche Ross & Co. and concluded such services would not adversely affect the Auditors' independence. Substantially all of the audit and non-audit services provided by Touche Ross & Co. to subsidiaries of Bell Canada were to Northern Telecom Limited and its subsidiaries. At a meeting held on October 26, 1978, the Audit Committee of Northern Telecom Limited approved such non-audit services provided up to that time and the types and amount of non-audit services to be provided for the remainder of 1978; the independence of the Auditors was not considered to be affected by the non-audit services provided or to be provided.

Other Pertinent Information

Security Ownership of Certain Owners

The Company is not aware of any person who beneficially owns or exercises control or direction over Bell Canada shares carrying more than ten percent of the votes attached to shares of the Company. At December 20, 1978, Investors Syndicate Ltd., 280 Broadway, Winnipeg, Manitoba, owned of record 1,042,000 Preferred Shares representing 6.553 percent of all issued and outstanding Preferred Shares of the Company.

Schedule A

BY-LAW TWENTY-FIVE—TO AMEND BY-LAWS FOUR and EIGHT

BY-LAW FOUR is hereby amended by rescinding Article 5 thereof and substituting therefore—

Article 5. TREASURER AND ASSISTANT TREASURERS. The Directors shall from time to time as may be required appoint a Treasurer who shall receive and have charge of all the funds, negotiable bonds and securities of the Company, and shall also deposit the funds to the credit of the Company only in such financial institutions as the Directors or the Executive Committee shall direct, and shall disburse the same under such regulations as the Board of Directors or the Executive Committee may from time to time adopt. He shall also keep complete and proper books of account and record covering all receipts and disbursements of cash and securities in his custody, which books shall be open at all times for inspection of the President or any member of the Board of Directors and for authorized audit. He shall also keep a record or records wherein shall be kept recorded the particulars required by law concerning the shareholders. He shall make such reports and perform such other duties as the Directors or the President may require. With the approval of the President he may appoint one or more Assistant Treasurers to perform such of the Treasurer's duties as may be definitely assigned, or, in the absence of the Treasurer, all or any of the duties of the Treasurer.

BY-LAW EIGHT is hereby amended by rescinding paragraphs 6 and 7 and substituting the following therefore—

All cheques or similar instruments drawn on the funds of the Company shall be signed by the Treasurer or by an Assistant Treasurer or by such other officer or officers or person or persons as the Directors shall by resolution appoint or authorize to be appointed in such manner as they shall designate in such resolution. If and to the extent authorized by resolution of the Directors the signature of the Treasurer or an Assistant Treasurer may be mechanically reproduced in facsimile on such cheques or similar instruments, such signatures shall for all purposes be deemed to be his signature and such cheques or similar instruments shall be valid and binding on the Company notwithstanding that the person whose signature may have been so mechanically reproduced is not the Treasurer or an Assistant Treasurer of the Company at the date when any such cheque or similar instrument is issued or presented for payment; and the President and the Treasurer are, and each of them is, hereby authorized to enter into such agreements with the Company's financial institutions as may be necessary to give effect to the foregoing.

All cheques or similar instruments payable to the order of the Company shall be endorsed "for deposit only" and deposited to the credit of the Company in the financial institution or financial institutions designated by the Directors.

BY-LAW TWENTY-SIX—TO AMEND BY-LAW TWENTY-FOUR

BY-LAW TWENTY-FOUR is hereby amended by: (i) deleting in Article 1 the words "not more than eight million (8,000,000)" and in their place and stead inserting the words "seven million (7,000,000)"; and (ii) deleting in Article 2 the number "$200,000,000" and in its place and stead inserting the number "$175,000,000"; so that no further preferred shares may be issued under the authority of the said By-law.

BY-LAW TWENTY-SEVEN—BORROWING POWERS

The Directors of the Company are hereby authorized from time to time to:

(a) borrow money upon the credit of the Company;
(b) limit or increase the amount to be borrowed;
(c) issue bonds, debentures, debenture stock or other securities of the Company with such attributes as the Directors may determine;
(d) pledge or sell such bonds, debentures, debenture stock or other securities for such sums and at such prices as may be deemed expedient; and

(e) secure any such bonds, debentures, debenture stock or other securities, or any other present or future borrowing or liability of the Company, by mortgage, hypothec, charge or pledge of all or any currently owned or subsequently acquired real and personal, movable or immovable property of the Company, and the undertaking and rights of the Company;

and, by resolution, to delegate to any Officer or Officers, Director or Directors or any Committee of the Directors, of the Company, any or all of the powers specified above to the full extent thereof or to such other extent and in such manner, if any, as the Directors may in such resolution provide.

Resolution of the Directors increasing the authorized Capital Stock of the Company from $1,750 million to $5,000 million

RESOLVED:

THAT the authorized Capital Stock of the Company be and it is hereby increased by Three Thousand Two Hundred and Fifty Million Dollars ($3,250,000,000) so that the total Capital Stock of the Company, including the present authorized Capital Stock of One Thousand Seven Hundred and Fifty Million Dollars ($1,750,000,000), shall not exceed Five Thousand Million Dollars ($5,000,000,000) consisting of Common Shares and other classes of shares, with or without par value.

BY-LAW TWENTY-EIGHT—CLASSES OF PREFERRED SHARES

Article 1. Ten classes of Preferred Shares of the Company, be and the same are hereby declared to be and are hereby created, provided that the maximum aggregate amount of all such classes shall not exceed One Thousand Million Dollars ($1,000,000,000).

Article 2. The Directors of the Company are hereby authorized:

(a) to provide for the issuance of any such class in one or more series;

(b) to determine the designation and to fix the par value, if any, and the number of shares of each such class or series; and

(c) to establish such preferred, deferred or other special rights, privileges, restrictions, conditions or limitations attaching to the shares of each such class or series in respect of, but not limited to, dividends, return of capital, voting, election of Directors, redemption or purchase of such shares or conversion of such shares into another class or other classes of shares.

BY-LAW TWENTY-NINE—ISSUANCE OF CERTIFICATES, WARRANTS, ETC.

The Directors of the Company are hereby authorized:

a) to issue certificates, warrants or other evidences of conversion privileges, options or rights to acquire securities of the Company, the conditions of which shall be set out:

(i) in the certificates, warrants or other evidences; or

(ii) in certificates evidencing the securities to which the conversion privileges and options or rights are attached; and

b) to provide that conversion privileges, options and rights to acquire securities of the Company may be made transferable or non-transferable, and provide that options and rights to acquire may be made separable or inseparable from any securities to which they are attached.

BY-LAW THIRTY—SUBDIVISION OF COMMON SHARES

Article 1. Each of the issued and unissued common shares of the par value of $25 each in the capital stock of the Company be and is hereby subdivided into three (3) common shares of the par value of $8⅓ each, so that the authorized capital stock of the Company shall be $5,000,000,000 consisting of issued and unissued common shares of the par value of $8⅓ each and other classes of shares, with or without par value.

Article 2. Certificates representing issued and outstanding common shares of the par value of $25 each shall, after the coming into force of this by-law, represent the same number of common shares respectively of the par value of $8⅓ each and new certificates representing

the additional common shares resulting from the subdivision shall be provided.

Article 3. Following the sanction of this by-law by the shareholders as required by the Act of Incorporation of the Company, as amended, it shall not come into force or effect until such time and date as the Directors of the Company shall fix by resolution.

Article 4. The Directors and Officers of the Company be and are hereby authorized and directed to do all such things as in their opinion may be necessary or useful for the purpose of carrying into effect the intents and purposes of this by-law.

I, the undersigned, Secretary of Bell Canada, hereby certify that the contents of this circular and the sending of it to each Shareholder entitled to receive notice of the Annual and Special General Meeting, to each Director, to the Auditors of the Company and to the appropriate governmental agencies were approved by the Board of Directors of the Company on February 28, 1979.

James T. Moore, Secretary.

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